



CITY COUNCIL STAFF REPORT
MEETING DATE: November 13, 2002

Agenda Item # 1

Prepared By:

Finance Director

Submitted By:

City Manager

**SEWER AND WATER REVENUE REQUIREMENTS
WORKSHOP**

RECOMMENDED ACTIONS:

- 1) Review Water & Sewer Fund Revenue Requirements Study
- 2) Evaluate sewer and water revenue alternatives and provide guidance to staff, so that a narrowing of these alternatives will occur by January 1, 2003

EXECUTIVE SUMMARY:

On October 23, the City's sewer and water rate consultant, Hilton Farnkopf & Hobson, as a sub-consultant to MAXIMUS, presented their study of the City's sewer and water revenue requirements and rate structure. The Council directed that their report be discussed in detail at tonight's workshop. The rates were last adjusted in 1997. The consultant has worked with staff and produced the attached report, in which they have analyzed and projected the City's water and sewer revenue requirements. From this review and analysis, they have concluded that there is no obvious reason why the City's basic water or sewer rate structures should be changed and they have not recommended any such changes. Further, they have concluded that there is no need to change the existing sewer rates for the period through 2006/07.

For water rates, the consultant has provided three options:

- 1) Increase water rates by 2% in each of the years from 2002/03 through 2006/07; *or*
- 2) Implement a one-time increase of 8% to water rates effective April 1, 2003; *or*
- 3) Borrow \$2 million in the bond market in 2004/05, to finance capital related costs, and keep rates constant through 2006/07.

The consultant's assumptions include a 3% annual inflationary increase in costs, including the City's cost of purchasing water from the Santa Clara Valley Water District. Should actual annual water cost increases be higher than 3%, revenue requirements would increase and water rates for the City's customers would be impacted. While option #3 would keep rates constant through 2006/07, it would cause higher water rates down the line because related future debt service payments would be financed by future rate payers.

Staff seeks guidance from the Council as to which of the consultant's three options for meeting water revenue requirements should be implemented. Staff believes that this workshop study session is ideal for the Council to further discuss the alternatives and receive community input concerning sewer and water revenue requirements and rates, so that a narrowing of these alternatives may be made by January 1, 2003. Following the workshop process, staff would schedule a public hearing for any proposed changes to rates.

FISCAL IMPACT:

The overall conclusions reached by the consultant are that sewer revenue requirements do not call for any rate adjustments at this time and that water revenue requirements indicate that the City should take steps to increase revenue.



CITY OF MORGAN HILL

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

HILTON FARNKOPF & HOBSON, LLC



October 17, 2002

City of Morgan Hill

17555 PEAK AVENUE

MORGAN HILL, CA 95037

WATER AND SEWER FUND REVENUE REQUIREMENTS STUDY

OCTOBER 17, 2002



Hilton Farnkopf & Hobson, LLC

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TEL: (925) 977-6950 FAX: (925) 977-6955

October 17, 2002

Mr. Jack Dilles, Director
Finance Department
City of Morgan Hill
17555 Peak Avenue
Morgan Hill, CA 95037

Subject: Water and Sewer Fund Revenue Requirements Study

Dear Mr. Dilles:

Hilton Farnkopf and Hobson, LLC is pleased to present the City with this Water and Sewer Fund Revenue Requirements Study.

This report updates our earlier April 2002 report to account for recent changes in the fiscal year 2002-03 budget and projections through fiscal year 2006-07. Potential rate and debt funding options to meet revenue requirements are also briefly summarized.

If you have any questions about this study, please contact me at 925-977-6953, or Greg Clumpner at 530-759-1650.

Very truly yours,

HILTON FARNKOPF & HOBSON, LLC

John W. Farnkopf, P.E.
Senior Vice President

Attachments

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I. EXECUTIVE SUMMARY

Hilton Farnkopf and Hobson, LLC (HF&H) has prepared this report for the City of Morgan Hill (the City) under a subcontract with DMG Maximus, Inc. The following is a brief summary.

WHY WAS THIS STUDY PREPARED?

The City has studied its water and sewer rates within the last few years and is reasonably satisfied with its current water and sewer rate structure. However, the City has been updating its water and sewer master plans and capital improvement programs, and wanted to review the impacts these changes may have on the revenue requirements for these utilities. The primary purpose of this study is to evaluate revenue requirements. Rate and funding options are only present briefly for informational purposes and not to provide recommendations on rate adjustments.

WHAT DID THE STUDY ENTAIL?

Beginning in August of 2001, HF&H evaluated the City's current water and sewer rates, considered the revised costs of planned capital improvements, projected the overall revenue requirements, and calculated the rate increases needed to meet future operating and capital costs. In an April 2002 version of this report, HF&H presented 5-year financial plans for both Water and Sewer Funds. This plan outlined contributions to fund reserves, year-end balances, the funding sources for capital projects, and prepared projections of rate increases. Since that study was completed, the City's budgets have continued to change, necessitating this update. In particular, the City has responded to increasing costs in the water fund by re-examining and reducing its budgeted expenses, including the cost, timing, and need for capital projects.

WHAT ARE THE PROJECTED REVENUE REQUIREMENTS?

Based on the City's estimated actual FY 01-02 and adopted FY 02-03 budgets and input from HF&H, City staff made additional adjustments to the projected water and sewer revenue requirements. HF&H has reviewed and incorporated these projections. Table ES-1 and Figures ES-1 and ES-2 show the resulting projections over the next four years. It should be noted that the "Percent Change" shown for both the Water and Sewer Funds in Table ES-1 represents the change from year to year in the revenue requirements, not rate increases.

This table and these figures illustrate the dramatic increase in Water Fund revenue requirements from FY 00-01 to FY 01-02 due to higher costs of capital projects and to a lesser extent the drop in non-rate revenues. After a return to more normal levels of capital costs in FY 03-04, the projected revenue requirements are characterized by smaller, steadier increases.

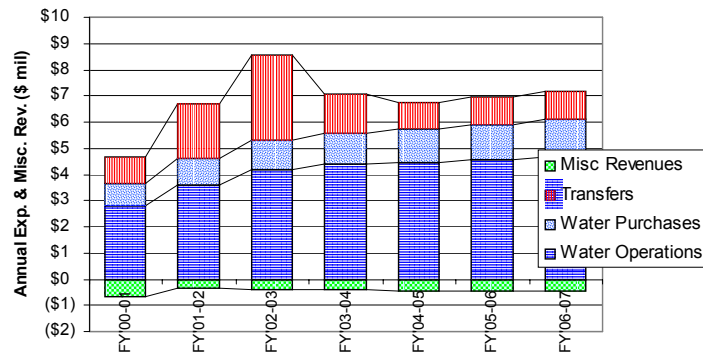
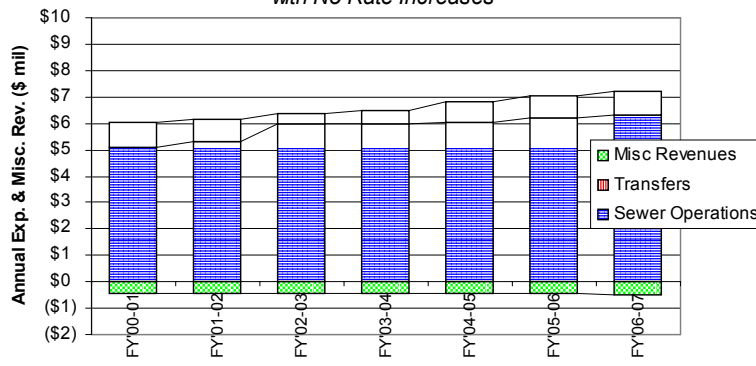
The changes in the Sewer Fund projections are more gradual and less dramatic.

Table ES-1

Summary of Water & Sewer Revenue Requirements*City of Morgan Hill*

	FY'00-01	FY'01-02	FY'02-03	Projected Revenue Requirements			
	Est. Actual	Est. Actual	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Fund (650)							
Water Operations	\$2,807,834	\$3,595,764	\$4,194,719	\$4,373,600	\$4,446,400	\$4,562,900	\$4,682,700
Water Purchases	\$871,271	\$1,005,316	\$1,115,847	\$1,217,000	\$1,279,000	\$1,343,000	\$1,411,000
Transfers Out (In)	\$987,950	\$2,079,808	\$3,269,799	\$1,481,800	\$1,032,537	\$1,055,937	\$1,080,037
less Non-Rate Revenue	<u>(\$674,656)</u>	<u>(\$356,495)</u>	<u>(\$401,347)</u>	<u>(\$419,500)</u>	<u>(\$427,700)</u>	<u>(\$436,100)</u>	<u>(\$444,700)</u>
Net Revenue Req'ts.	\$3,992,399	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Percent Change		58%	29%	-19%	-5%	3%	3%
Sewer Fund (640)							
Sewer Operations	\$5,082,136	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers Out (In)	\$978,706	\$850,543	\$391,377	\$503,100	\$765,200	\$877,700	\$890,600
less Non-Rate Revenue	<u>\$ (412,500)</u>	<u>\$ (417,402)</u>	<u>\$ (422,000)</u>	<u>\$ (434,000)</u>	<u>\$ (446,000)</u>	<u>\$ (459,000)</u>	<u>\$ (473,000)</u>
Net Revenue Req'ts.	\$5,648,342	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
Percent Change		1%	4%	1%	6%	4%	2%

Source: Water and Sewer Rate Model Tables FP-W1 and FP-S1.

Figure ES-1 - Projected Water Fund Revenue Requirements
(with Level Rate Increases of 2%/year - for Illustration Purposes)**Figure ES-2 - Annual Sewer Fund Revenue Requirements**
with No Rate Increases

WHAT ARE THE RATE AND FUNDING ALTERNATIVES?

To meet revenue requirements in the Water Fund, the City could pursue one of the following options, or some combination of these alternatives:

- **Alternative 1 - Level Water Rate Increases of 2%/Year** – Adopting a water rate increase of 2%/year beginning in FY 02-03 would be sufficient to meet revenue requirements.
- **Alternative 2 - One-Time Rate Increase of 8%** – This one-time rate 8% increase in FY 02-03 could be used to meet the revenue requirements and target reserve fund levels through the end of FY 06-07.
- **Alternative 3 - Additional Debt Only** – If the City chose to not increase rates through FY 06-07, it could still meet the water utility's revenue requirements by issuing an additional \$2 million in revenue bonds, or other debt, in or around FY 04-05 to meet the capital projects requirements and target reserve levels.

It appears the City would not need to increase rates in the Sewer Fund to meet projected revenue requirements, assuming the City issues the \$8 million in revenue bond proceeds in FY 04-05 as currently shown in the 5-year capital improvement program.

WHAT OTHER FINDINGS DOES HF&H MAKE IN THIS REPORT?

Based on our review, the City should consider the following findings along with the results of the revenue requirements:

- **Rate Structures** – The City's current water and sewer rate structures do not warrant any significant revisions.
- **Rate Adjustments** – As a next step, the City should carefully evaluate the projected expenditures in the CIP program and the rate adjustments and/or debt funding needed over the next few years to meet these revenue requirements.
- **Future Review** – The City should annually review the assumptions used in developing the budgets, revenue requirements, and capital expenditures.

II. INTRODUCTION

In the last few years, the City studied its water and sewer rates, including public workshops. As a result, the City already has a rate structure that meets many of the City's ratemaking objectives. Therefore, when the City initially retained HF&H to review the existing rates, our primary objective was to identify further improvements and rate adjustments needed to meet future revenue requirements. The City also requested that we do this within the context of a 5-year financial plan for both the Water and Sewer Funds.

City staff requested that the emphasis in this report be on the projected revenue requirements, while also providing a brief overview of alternatives for adjusting water and sewer rates. City staff have also indicated that the City Council and other stakeholders will review these revenue requirements and determine what additional analysis, if any, is needed prior to considering any rate changes.

The following report provides a brief overview of the proposed 5-year financial plans, and several alternative rate adjustments for informational and illustrative purposes.

STUDY APPROACH

The initial study task was to collect input from City staff, including the current budget, rate structure, and other financial information for both the Water and Sewer Funds. As a part of the initial rate review, we also reviewed the City's water consumption records and sewer customer characteristics, which play a role in determining equitable water and sewer rates.

To address the equity of rates and the appropriateness of the rate structures, we developed rate models for both Water and Sewer Funds, and developed financial plans for each utility. The technical core of these rate models and financial plans addressed how costs are allocated among various customer classes, the contributions needed in the City's reserve funds, and how to meet future revenue requirements. The 5-year planning period addressed was FY 02-03 through FY 06-07.

Some of the basic assumptions used in these rate models included:

- Projected growth in customer accounts: 2.0%/year
- Projected escalation in employee salaries: 3.0%/year
- Projected general inflation rate: 3.0%/year
- Projected interest earnings rate: 4.0%/year

Some of the more specific assumptions include:

- Current SCVWD water rates (i.e., the pump tax) will increase at 3%/year, and the City will also pay for more water due to growth-related increases in total

consumption. However, these 3%/year rate increases are less than half the increases that SCVWD is projecting, and any increases above this 3% will directly increase the City's water revenue requirements.

- The City will be reimbursed \$700,000 in FY 03-04 for well construction costs it incurred on behalf of other entities.
- The FY 02-03 transfer of \$1.3 million from operations to the Water Impact Fund (651) will be repaid to the operations fund before the end of the study period.
- We assumed that debt service on any new revenue bonds is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve fund requirements amounting to 10% of the net bond proceeds.
- Any optional rate increases in FY 02-03 would take effect on April 1, 2003 and, therefore, would only generate additional rate revenue in the last quarter of the fiscal year. However, these rate increases would carry over to subsequent years and generate additional rate revenues for the remainder of the study period.

Although projected expenditures reflect the City's most recent budgets, in an effort to reduce total water revenue requirements in FY 02-03 and thereafter City staff and HF&H have made additional adjustments to water operating costs, capital costs, and how transfers and reserve funds are used. Therefore, the Water Fund "current plan" budget for FY 02-03 is different than the adopted FY 02-03 budget.

Projected expenditures after FY 02-03 generally assume costs are inflated at 3 percent per year. The SCVWD currently projects rate increases of approximately 30 percent between FY 02-03 and FY 06-07. However, the City's past experience is that SCVWD increases are not as great as projected. Because of this, the City is assuming only a 3%/year rate increase in SCVWD's pump tax rates during the next four years. Any additional SCVWD increases would directly increase the City's water revenue requirements.

Once the budget data were collected and the budget adjustments accounted for, initial rate model and financial plans were developed. Using these tools, we evaluated the projected operations budgets and the resulting net revenue required from water and sewer. Those net revenue requirements are the result of the following factors:

+ Operating Expenses (from Budgets)
+ Reserve Fund Transfers Out (or In)
+ CIP Funding Needs
- Non-Rate Revenues
<hr/>
Net Revenue Requirements

III. WATER AND SEWER 5-YEAR FINANCIAL PLANS

After reviewing the cost allocations to the customer classes, we concluded that the City need not substantially change its rate structures. We therefore focused our efforts on the revenue requirements, fund balances, and potential rate increases needed, which are reflected in the financial plans. Alternative rate adjustments are discussed in the last section.

This section presents the 5-year financial plans for the Water and Sewer Funds. These plans consist of projected revenue requirements, transfers between reserve funds, and ending-year reserve fund balances. These components are discussed individually below. Supporting tables, including details of the budget projections, are provided in Appendix A for water revenue requirements, and in Appendix B for the sewer.

WATER FINANCIAL PLAN

Revenue Requirements

The projected revenue requirements for the Water Operations Fund (650) are presented in Table FP-W1A and Figure 1A. For illustration purposes, we have assumed that rate increases of 2% per year are implemented in order to meet reserve fund target balances.

Table FP-W1A						
Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)						
City of Morgan Hill						
	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
Water Fund Expenses	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From)						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

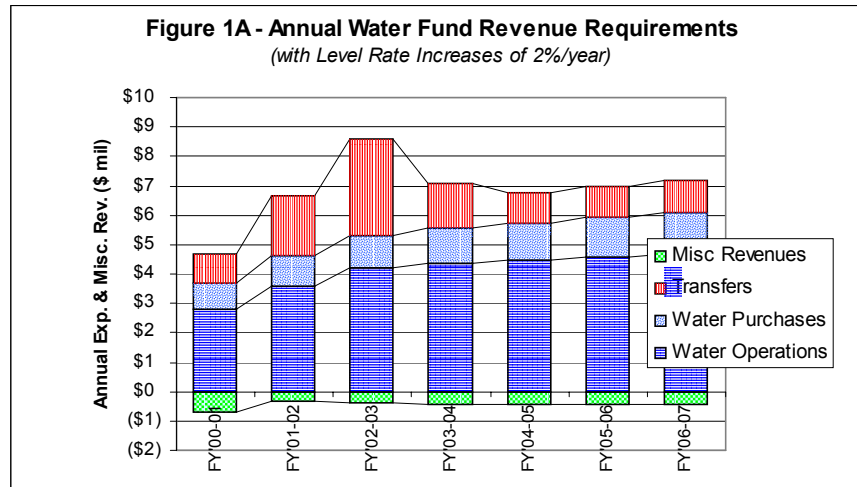
b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

This table indicates that net revenue requirements in FY 02-03 are almost 30% higher than the previous year, primarily due to significantly larger capital project-related transfers. There are small annual transfers from operations to the Rate Stabilization Fund (652) beginning in FY 03-04 for the purpose of maintaining the reserve target level of Fund 652. As shown in Figure 1A, the various categories of revenue requirements have steady increases in FY 03-04 and thereafter with the exception of capital-related transfers, which grew dramatically in FY 02-03 but return to more normal levels in FY 03-04.



Potential Rate Increases

There are a number of ways the City could meet these revenue requirements. We have provided an example of a commonly used approach for illustrative purposes: level rate increases sufficient to meet the requirements over the study period.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative				
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037	
Revenue from Rates							
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000	
Revenue from previous years' rate increases	\$0	\$0	\$119,460	\$246,117	\$380,347	\$522,455	
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455	
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418	
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)	
Rate Increase Alternative			2.0%	2.0%	2.0%	2.0%	
Cumulative Rate Increase			2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)							
Effective March 1, 2002		\$29,280	\$119,460	\$121,840	\$124,280	\$126,760	
Effective July 1, 2003			\$121,849	\$124,277	\$126,766	\$129,295	
Effective July 1, 2004				\$126,762	\$129,301	\$131,881	
Effective July 1, 2005					\$131,887	\$134,519	
Effective July 1, 2006						\$137,209	
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664	
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664	
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627	

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Dev., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the water fund:

- Water Operations Fund (650)
- Water Impact Fund (651)
- Water Rate Stabilization Fund (652)
- Water Capital Projects Fund (653)

The flow of money between these funds and their ending balances are important aspects of the water fund's financial management, and are shown in Table FP-W1B over the next 5 years.

This table also summarizes two cases for the Water Operations Reserve Fund (650): (1) no rate increases, and (2) 2% rate increases. This second case is discussed more in Section IV. These reserve funds accumulate the beginning balances, plus any operating surplus or deficit (e.g., rate revenue less revenue requirements), plus interest earned in the fund during the year. In the Water Impact Fund (651), we have included additional revenue bond proceeds of \$1.5 million, which is necessary to avoid year-end deficits in this fund.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02		FY'02-03		Water Financial Plan - Transfers and Reserve Balances			
	Est.	Actual (a)	Current Plan		FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)								
Fund Balance Without Rate Increases								
Beginning Fund Balance		\$3,480,150	b	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>		<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (Without Rate Incr.)		\$3,373,757		\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
Fund Balance With Rate Increases								
		Rate Increases:		2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150		\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)		(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>		<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (With Rate Incr.)		\$3,373,757		\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000		\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)								
Beginning Fund Balance		\$797,457	b	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000		\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)		\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>		<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989		\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) f		\$1,200,000		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)								
Beginning Fund Balance	g	\$3,648,853	b	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000		\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0		\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0		(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)		(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) e		<u>\$1,450,000</u>		<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472		\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) h		\$1,500,000		\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances								
Total Reserves (Without Rate Increases)		\$8,185,218		\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (With Rate Increases)		\$8,185,218		\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		\$4,370,000		\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)								
Beginning Fund Balance		\$1,488,429	b	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000		\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	d	\$204,000		\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds						\$1,500,000		
Repayment of New Revenue Bonds							(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0		(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From (Out To) Operations (650)		\$0		\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)				\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)				\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) e		<u>(\$1,178,961)</u>		<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468		\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000		\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)					\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italic Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.

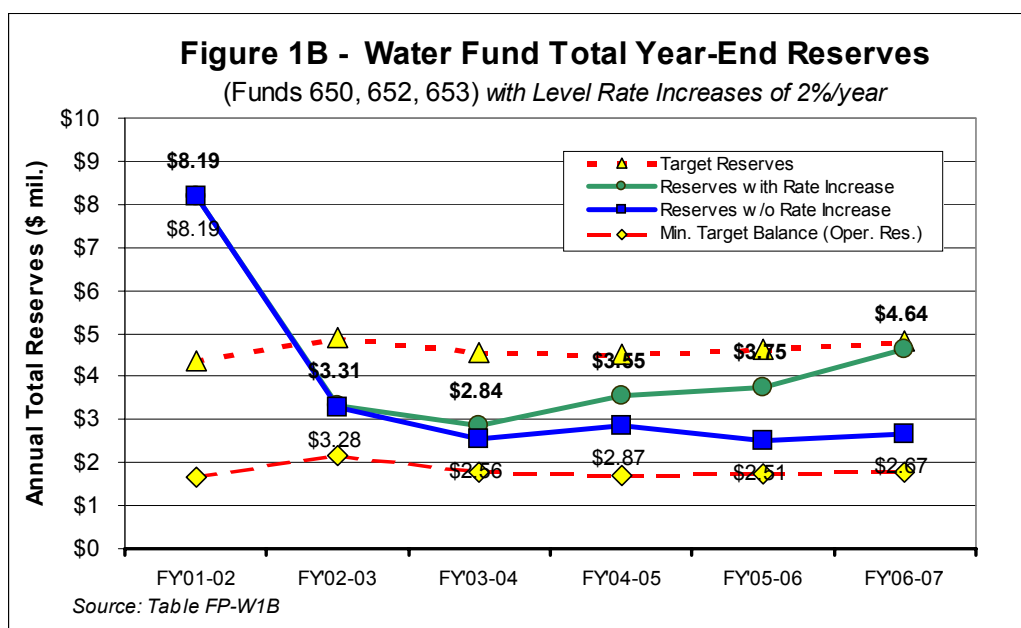
Target ending balances shown in this table for funds 650, 651, 652 and 653 are:

- Water Operations Fund (650) - The minimum target year-end balance is intended to provide the minimum advisable ending balance for a working capital reserve. Therefore, we have suggested a balance of 25% of the total operating budget, or three months of operating expenses.

- Water Rate Stabilization Fund (652) - The target balance is 20% of the annual water sales, and is intended to cover a 20% decline in water use due to a one-year drought.
- Water Impact Fund (651) and Water Capital Projects Fund (653) - The target balances for these funds are the 5-year average of the capital project costs in each.

As shown in Table FP-W1B, without the 2% rate increases, the operating fund's ending balance declines over the period, although it would still be adequate if used solely as a working capital reserve. We consider the target operations fund balance to be the minimum for the City's total reserves. Therefore, the City should carefully monitor these reserves over the next few years, particularly with regard to the need for additional revenue bonds in the Water Impact Fund (651) and the Water Capital Projects Fund (653).

Figure 1B illustrates the total reserve fund balances with and without the 2% rate increase compared to the target and minimum balances. The Water Impact Fund (651), which should be kept separate from non-impact fee funds, is not included in this total.



SEWER FINANCIAL PLAN

A similar financial plan was prepared for the Sewer Fund, and is outlined below.

Revenue Requirements

The projected revenue requirements for the Sewer Fund (640) are presented in Table FP-S1 and Figure 2, and indicate that FY 02-03 revenue requirements are about 4% higher than the previous year. The annual changes in revenue requirements are in the 1% to 5% range thereafter.

Table FP-S1

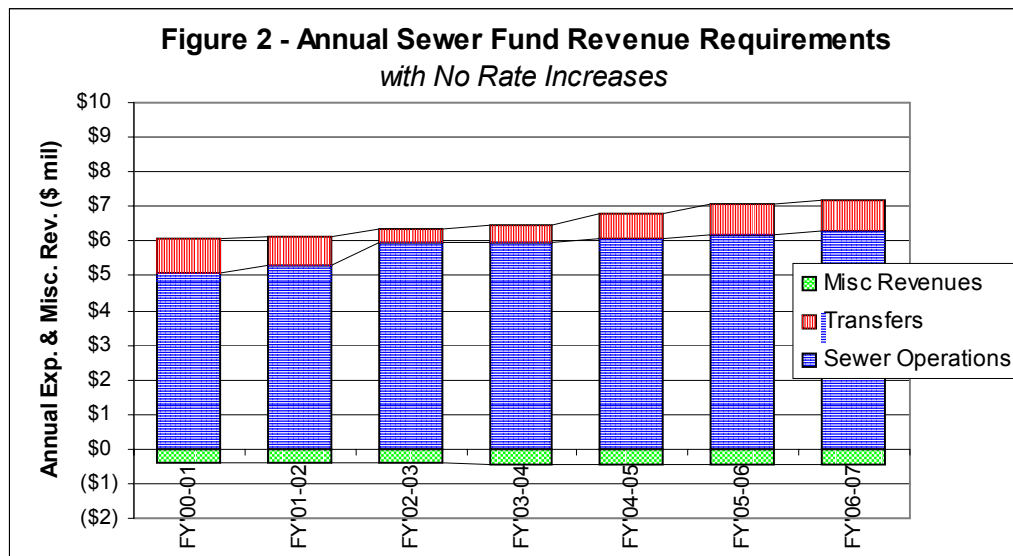
Projected Sewer Utility Revenue Requirements City of Morgan Hill

	YTD Expenses FY01-02 (b)	Adopted Budget FY02-03	Sewer Financial Plan - Projected Expenses and Revenues			
			Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
Operating Expenses (a)						
Employee Services	\$794,628	\$887,520	\$970,800	\$999,900	\$1,029,900	\$1,060,900
Supplies & Services	2,536,052	2,701,686	2,782,800	2,866,300	2,952,200	3,040,700
Capital Outlay	45,567	49,725	91,200	52,800	54,400	56,000
Debt Service	1,637,946	2,069,674	1,840,688	1,842,546	1,843,146	1,843,346
Internal Services	231,586	275,252	283,500	292,000	300,700	309,700
Encumbrances	51,855	0	0	0	0	0
Subtotal - Operating	\$5,297,634	\$5,983,857	\$5,968,988	\$6,053,546	\$6,180,346	\$6,310,646
Transfers To/(From) (c)						
Transfer-Street	\$160,000	\$200,000	\$206,000	\$212,200	\$218,600	\$225,200
Transfer-GF Fund	15,000	17,500	18,000	18,500	19,100	19,700
Transfer - Sewer Rate Stabilization Fund 642	0	(500,000)	(400,000)	(400,000)	(300,000)	(300,000)
Transfer-Sewer Replacement Fund 643	500,000	500,000	500,000	750,000	750,000	750,000
Transfer-Water Operations Fund 650	175,543	173,877	179,100	184,500	190,000	195,700
Subtotal - Transfers	\$850,543	\$391,377	\$503,100	\$765,200	\$877,700	\$890,600
Total Revenue Requirement	\$6,148,177	\$6,375,234	\$6,472,088	\$6,818,746	\$7,058,046	\$7,201,246
less Other (Non-Rate) Revenues	(\$417,402)	(\$422,000)	(\$434,000)	(\$446,000)	(\$459,000)	(\$473,000)
Net Revenue Requirements	\$5,730,775	\$5,953,234	\$6,038,088	\$6,372,746	\$6,599,046	\$6,728,246
<i>Annual Change in Revenue Requirements</i>		3.9%	1.4%	5.5%	3.6%	2.0%

a. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections, projections based on assumed inflation rates.

b. From App. Table BP-S1, Sewer Operations - Summary of Budget Projections.

c. From Table BP-S1 except Fund 642 and 643 which are from Table FP-S3.



Potential Rate Increases

As noted earlier, the Sewer Fund does not appear to need rate increases to maintain its reserve fund target balances during the study period. Table FP-S2 shows the projected rate revenue compared to revenue requirements and resulting net annual surplus/deficit. These surplus/deficits are carried forward and accounted for in the Sewer Operating Reserve Fund (640).

Table FP-S2

Sewer Rate Increases Alternative City of Morgan Hill

	Est. Actual FY '01-02	Adopted Budget FY'02-03	Projected Rev. Req'ts. and Rate Revenue			
		FY'03-04	FY'04-05	FY'05-06	FY'06-07	
Net Revenue Requirements (From Table FP-S1)	\$5,730,775	\$ 5,953,234	\$ 6,038,088	\$ 6,372,746	\$ 6,599,046	\$ 6,728,246
Revenue from Rates						
Revenue from Current Rates (a)	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Revenue from previous years' rate increase	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Surplus/(Deficit) before rate increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Surplus/(Deficit) (No Rate Increases)	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (b)						
Effective July 1 of each year: FY 02-03		\$0	\$0	\$0	\$0	\$0
FY 03-04			0	0	0	0
FY 04-05				0	0	0
FY 05-06					0	0
FY 06-07						0
Subtotal - Revenue from Rate Increases	\$0	\$0	\$0	\$0	\$0	\$0
Total Rate Revenue	\$5,427,323	\$5,389,650	\$5,497,000	\$5,607,000	\$5,719,000	\$5,833,000
Annual Surplus/(Deficit) after Rate Increase	(\$303,452)	(\$563,584)	(\$541,088)	(\$765,746)	(\$880,046)	(\$895,246)

a. FY01-02 is from Jack Dilles, email to HF&H 5/14/02. Projections include a growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

b. Rate revenue from the rate increase alternative in the current year.

Projected Reserve Contributions and Balances

The City maintains four reserve funds in the Sewer Fund:

- Sewer Operations Fund (640)
- Sewer Impact Fund (641)
- Sewer Rate Stabilization Fund (642)
- Sewer Capital Projects Fund (643)

The projected transfers between funds and the year-end balances over the next 4 years are shown in Table FP-S3. As with the Water Operations Reserve Fund, the Sewer Operating Reserve accumulates the beginning-year balance of Fund 640, plus any operating surplus or deficit (i.e., rate revenue less revenue requirements), plus interest earned in the fund during the year. This table shows a transfer from the rate stabilization fund to sewer operations due to excess funds that were accumulating in the rate stabilization fund. This transfer also helps avoid rate increases.

The year-end totals of the various Sewer Fund reserves exceed their target balances in almost every year. However, this assumes the City issues \$8 million in revenue bonds in FY 04-05, as shown in the City's 5 year Capital Improvements Program, to supplement the sewer impact fund (641).

As with the water fund, we have proposed target year-end balances for Sewer Funds 640, 642 and 643. These include:

- Operating Fund (640) - minimum balance of 25% of the operating budget.
- Rate Stabilization Fund (642) - minimum balance of 20% of the annual water sales, intended to cover a 20% decline in water use due to a one-year drought.
- Sewer Impact and Capital Projects Funds (641 and 643) - target is equal to the average of the capital project expenditures for future and current users, respectively.

Table FP-S3

Summary of Projected Sewer Reserve Contributions and Balances

City of Morgan Hill

	Est. Actual FY '01-02 (a)	Adopted Budget FY'02-03	Water Financial Plan - Transfers & Reserve Balances			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Sewer Operations Fund (640)						
<i>Fund Balance Without Rate Increases</i>						
Beginning Fund Balance	\$5,564,044	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129
Annual Surplus/(Deficit)	<u>(303,452)</u>	<u>(563,584)</u>	<u>(541,088)</u>	<u>(765,746)</u>	<u>(880,046)</u>	<u>(895,246)</u>
Ending Balance (640) (Without Rate Incr.)	\$5,260,592	\$4,697,008	\$4,155,921	\$3,390,175	\$2,510,129	\$1,614,884
Minimum Target Balance (25% of Oper. Budget)	\$1,324,000	\$1,496,000	\$1,492,000	\$1,513,000	\$1,545,000	\$1,578,000
Sewer Rate Stabilization Fund (642)						
Beginning Balance	\$3,061,482	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863
Reimbursement of Expenses (SCRWA)	\$312,609	300,000	309,000	318,000	328,000	338,000
Interest Income (d)	97,386	123,378	120,000	121,000	126,000	133,000
Other Costs	(1,992)	0	0	0	0	0
Transfers to Operations (640)	<u>0</u>	<u>(500,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>
Ending Balance	\$3,469,485	\$3,392,863	\$3,421,863	\$3,460,863	\$3,614,863	\$3,785,863
Target Balance (20% of Sewer Rate Rev.) (e)	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,100,000	\$1,200,000
Sewer Capital Projects Fund (643) (f)						
Beginning Balance	\$3,450,429	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489
Interest Income (d)	117,971	108,421	11,000	14,000	16,000	19,000
Transfer to Capital Projects (Current Users)	(682,228)	(1,820,000)	(1,330,000)	(700,000)	(700,000)	(700,000)
Re-Budgeted Capital Projects (g)	0	(1,062,104)	0	0	0	0
Add'l. Transfer In from Oper. Fund	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Ending Balance	\$3,386,172	\$1,112,489	\$293,489	\$357,489	\$423,489	\$492,489
Target Balance (Ave. of CIP Transfers Out) (h)	\$990,000	\$1,020,000	\$1,051,000	\$1,083,000	\$1,115,000	\$1,148,000
Total Sewer Reserves (640, 642, 643) - Ending Balances						
Total Reserves (Without Rate Increases)	\$12,116,249	\$9,202,360	\$7,871,273	\$7,208,527	\$6,548,481	\$5,893,236
Total Target Reserves (640, 642, 643)	\$6,764,000	\$3,616,000	\$3,643,000	\$3,696,000	\$3,760,000	\$3,926,000
Sewer Impact Fund (641)						
Beginning Balance	\$6,820,277	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768
Interest Income (d)	189,744	176,887	63,000	126,000	477,000	184,000
New Revenue Bond Proceeds (i)	0	0	0	8,000,000	0	0
Debt Service on New Revenue Bonds (i)	0	0	0	0	(770,000)	(770,000)
Impact Fees Received	1,250,000	1,125,000	1,730,000	1,985,000	2,170,000	1,368,000
Transfer (Out) - Sewer CIP (Future Users)	<u>(2,685,140)</u>	<u>(4,003,000)</u>	<u>(3,022,000)</u>	<u>(485,000)</u>	<u>(1,518,000)</u>	<u>(8,386,000)</u>
Ending Balance	\$5,574,881	\$2,873,768	\$1,644,768	\$11,270,768	\$11,629,768	\$4,025,768
Target Balance (Ave. of CIP Transfers Out)	\$3,350,000	\$3,450,000	\$3,550,000	\$3,660,000	\$3,770,000	\$3,880,000

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is from Estimated Actual Budget shown in Adopted FY'02-03 Budget.

b. FY01-02 beginning year balances are set to yield the ending balances provided by Finance Department, 10/1/02.

c. FY '01-02 and '02-03 impact fees are from the Adopted FY 02-03 Budget. After FY 02-03, projections from Table CF-3 are used.

d. Interest earnings on current year funds assuming a 4% interest rate.

e. 20% of Sewer service charges from total rate revenue in Table FP-S2, rounded to nearest \$100,000.

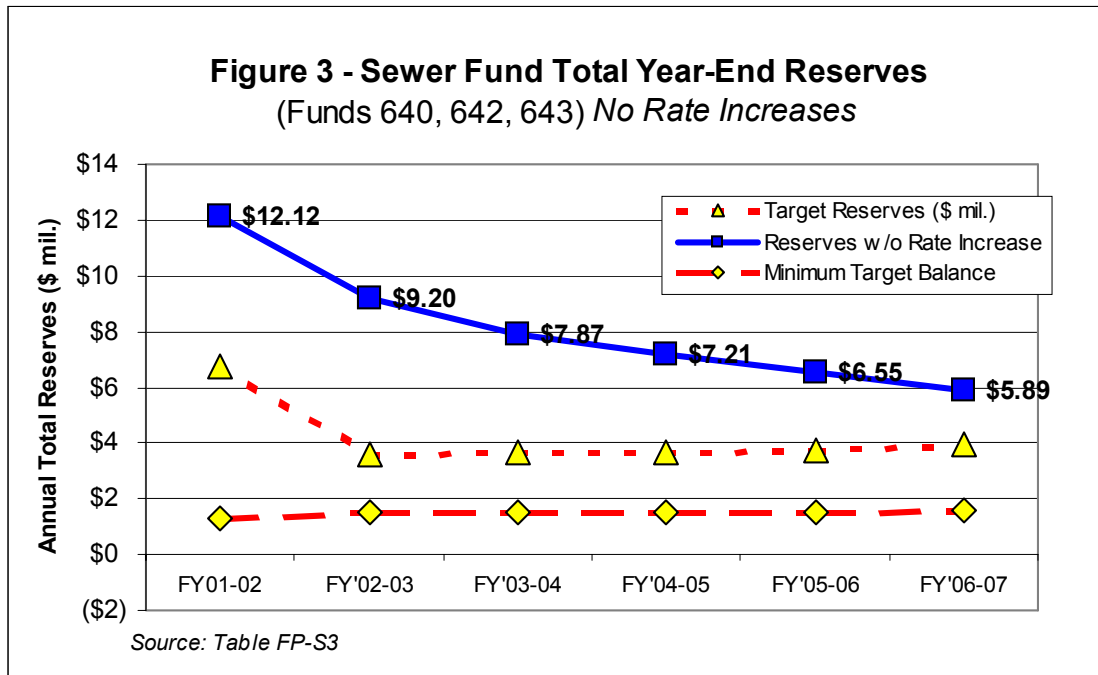
f. On 6/30/01, the Sewer System Replacement Fund 645 was combined into the Sewer Capital Projects Fund 643.

g. Projects planned for previous construction but now re-allocated to construction in '02-03. From Jack Dilles, 10/2/02.

h. Target ending balance is the 6-year average CIP project costs for current or future users, from Table FP-S4.

i. New revenue bond shown is from the City CIP dated 7-18-02. Debt service assumes 6% interest rate, 20 yr repayment, 10% issuance and reserve costs.

This table shows that without rate increases, the year-end balance of the total sewer reserves (funds 640, 642, and 643) decline from \$12.1 million to \$5.9 million, which is still well above the target reserve level of \$3.9 million. These changes in year-end total reserves are shown in Figure 3 below.



IV. RATE ALTERNATIVES TO MEET REVENUE REQUIREMENTS

The projected revenue requirements provide important information for the City to consider in developing its financial plans over the next several years. Included in these plans are the potential adjustments the City may need to make in its water and sewer rates.

Although it appears no rate increases will be needed in the Sewer Fund, the Water Fund will require additional revenue to meet the revenue requirements, including about \$1.5 million in additional debt in the Water Impact Fund (651). However, this section is not intended to provide a detailed review of alternative water rate increases. Instead, we have provided a brief overview of some alternative approaches to meeting water revenue requirements:

Alternative 1 - Level rate increases each year starting in FY 02-03,

Alternative 2 - A one-time rate increase in FY 02-03, and

Alternative 3 - Additional debt only and no rate increases.

The rate increases in the first two alternatives assume that an FY 02-03 rate increase would take effect April 1, 2003. This means there will only be additional rate revenue for the last quarter of the fiscal year. However, the higher rates will produce additional rate revenue throughout the remainder of the period.

The following is a comparison of the impacts that these three alternative rate and funding scenarios would have on annual rate revenue and the year-end balances of the water reserve funds.

ALTERNATIVE 1 – LEVEL WATER RATE INCREASES

This first alternative has level rate increases of 2%/year beginning in FY 02-03. This is the same financial plan previously shown in Section III. For purposes of comparing this alternative with Alternatives 2 and 3, the information will be presented again here.

The characteristics of this plan are that it avoids the rate-shock that can accompany large, one-time increases, and instead provides smaller annual increases that minimize the changes in customer bills.

Table FP-W1A outlines the results of increasing the water rates by 2% each year beginning in FY 02-03. Figure 1A shows the resulting reserve fund balances.

Table FP-W1A

Projected Water Fund Revenue Requirements (with Level Rate Increases of 2%/year)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	174,446 ^c	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From) ^d						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	675,000	675,000	675,000	675,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,481,800	1,032,537	1,055,937	1,080,037
Total - Operations & Transfers	6,680,888	8,580,365	7,072,400	6,757,937	6,961,837	7,173,737
less Misc. Non-Rate Revenue ^e	(\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Annual Change in Revenue Requirements		29.3%	-18.7%	-4.8%	3.1%	3.1%

a. From Appendix Table BP-W1, Water Operations - Summary of Budget Projections.

b. Projected using Adopted FY'02-03 budget and the inflation rates and City staff adjustments shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers".

d. Transfers shown in Table FP-W1B.

e. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

Figure 1A - Annual Water Fund Revenue Requirements

(with Level Rate Increases of 2%/year)

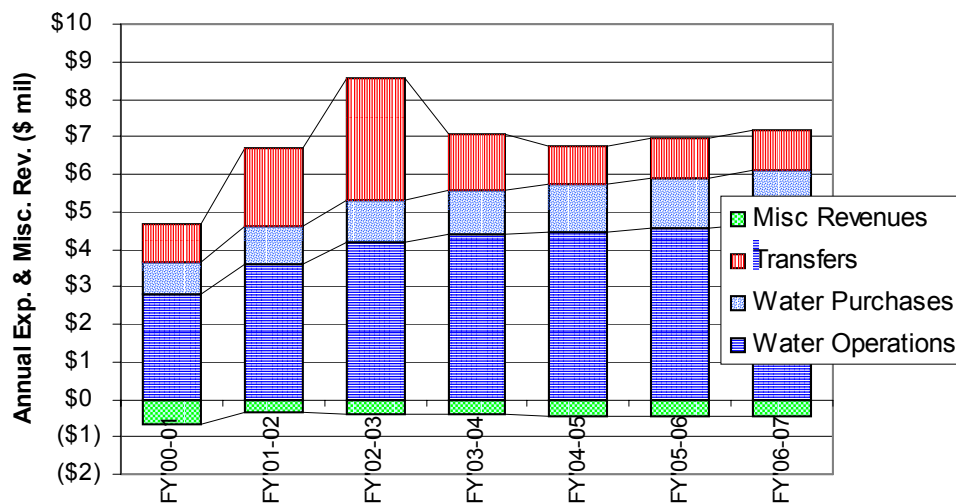


Table FP-W1C summarizes the additional rate revenue generated by these 2% rate increases, along with the annual surplus/deficits.

Table FP-W1C

Water Rate Increases Alternative (with Level Rate Increases of 2%/year)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	<u>\$0</u>	<u>\$0</u>	<u>\$119,460</u>	<u>\$246,117</u>	<u>\$380,347</u>	<u>\$522,455</u>
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,092,460	\$ 6,338,117	\$ 6,594,347	\$ 6,860,455
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (560,440)	\$ 7,880	\$ 68,610	\$ 131,418
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Rate Increase Alternative		2.0%	2.0%	2.0%	2.0%	2.0%
Cumulative Rate Increase		2.0%	4.0%	6.1%	8.2%	10.4%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		<u>\$29,280</u>	\$119,460	\$121,840	\$124,280	\$126,760
Effective July 1, 2003			<u>\$121,849</u>	\$124,277	\$126,766	\$129,295
Effective July 1, 2004				<u>\$126,762</u>	\$129,301	\$131,881
Effective July 1, 2005					<u>\$131,887</u>	\$134,519
Effective July 1, 2006						<u>\$137,209</u>
Subtotal - Revenue from Rate Increases	\$ -	\$ 29,280	\$ 241,309	\$ 372,879	\$ 512,233	\$ 659,664
Total Rate Revenue	\$ 5,991,000	\$ 5,885,195	\$ 6,214,309	\$ 6,464,879	\$ 6,726,233	\$ 6,997,664
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627

a. From Table FP-W1A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W1B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W1B summarizes the contributions to and ending balances of the reserve funds under a 2%/year rate increase. The results from this table are graphically presented in Figure1B.

Table FP-W1B

Projected Reserve Contributions and Balances (with Level Rate Increases of 2%/year)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without Rate Incr.</i>)		\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>							
	Rate Increases:		2.0%	2.0%	2.0%	2.0%	2.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687
Annual Surplus/(Deficit)		(\$333,393)	(\$2,293,823)	(\$438,591)	\$134,642	\$200,496	\$268,627
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$33,766</u>	<u>\$40,502</u>	<u>\$50,142</u>	<u>\$62,893</u>
Ending Fund Balance (650) (<i>With Rate Incr.</i>)		\$3,373,757	\$1,282,730	\$877,904	\$1,053,048	\$1,303,687	\$1,635,206
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<u>Without</u> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<u>With</u> Rate Increases)		\$8,185,218	\$3,312,045	\$2,843,219	\$3,549,363	\$3,754,002	\$4,636,521
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Net Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From (Out To) Operations (650)		\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, fax from Jack Dilles, 10/1/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

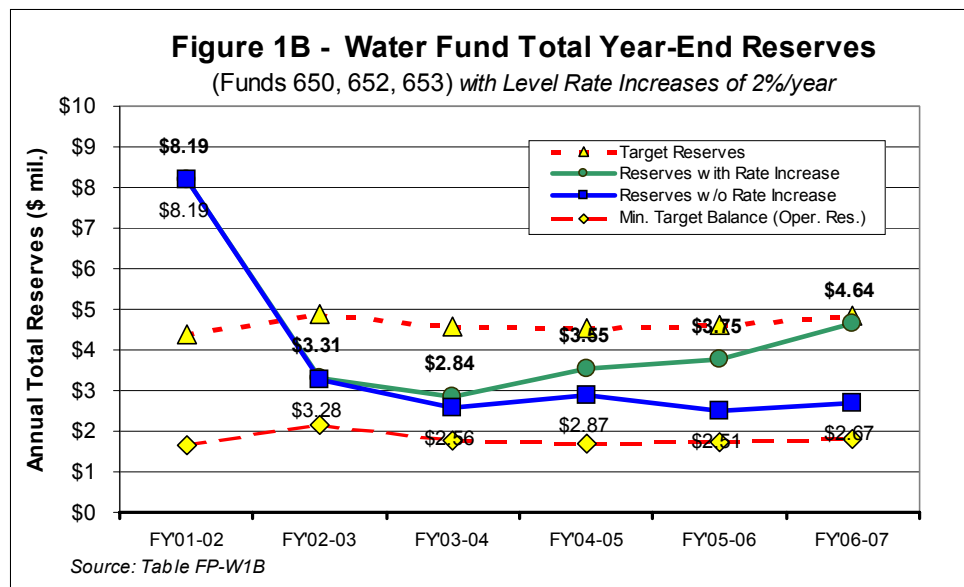
d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. Source: City Finance Dept records, 10/1/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 2 – ONE-TIME WATER RATE INCREASE

The revenue requirements in this alternative are the same as previously shown in Table FP-W1A and Figure 1A. However, a one-time rate increase of 8% generates different amounts of rate revenue and has different impacts on the water reserve funds. These rate revenues and reserve fund impacts are summarized in Tables FP-W2C and FP-W2B, respectively. The changes in the reserves are graphically represented in Figure 2B.

Table FP-W2C

Water Rate Increase Alternative - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

	FY'01-02 Est. Actual (b)	FY'02-03 Current Plan	Water Financial Plan - Rate Increase Alternative			
			FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,652,900	\$6,330,237	\$6,525,737	\$6,729,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$477,840	\$487,360	\$497,120	\$507,040
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003
Surplus/(Deficit) (No Rate Increases)						
Rate Increase Alternative						
Cumulative Rate Increase			8.0%	8.0%	8.0%	8.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$117,118	\$477,840	\$487,360	\$497,120	\$507,040
Effective July 1, 2003			\$0		\$0	\$0
Effective July 1, 2004				\$0		\$0
Effective July 1, 2005					\$0	\$0
Effective July 1, 2006						\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ 117,118	\$ 477,840	\$ 487,360	\$ 497,120	\$ 507,040
Total Rate Revenue	\$ 5,991,000	\$ 5,973,033	\$ 6,450,840	\$ 6,579,360	\$ 6,711,120	\$ 6,845,040
Annual Surplus/(Deficit) after Rate Increase f	\$ (333,393)	\$ (2,205,985)	\$ (202,060)	\$ 249,123	\$ 185,383	\$ 116,003

a. From Table FP-W2A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W2B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W2B

Projected Reserve Contributions and Balances - Alternative 2 (One-Time Rate Increase)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$679,900)	(\$238,237)	(\$311,737)	(\$391,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$22,942</u>	<u>\$14,330</u>	<u>\$2,434</u>	<u>\$0</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$596,492	\$372,585	\$63,282	(\$327,755)
<i>Fund Balance With Rate Increases</i>							
	<i>Rate Increases:</i>		8.0%	0.0%	0.0%	0.0%	0.0%
Beginning Fund Balance		\$3,480,150	\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663
Annual Surplus/(Deficit)		(\$333,393)	(\$2,205,985)	(\$202,060)	\$249,123	\$185,383	\$116,003
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$46,740</u>	<u>\$58,575</u>	<u>\$68,333</u>	<u>\$75,707</u>
Ending Fund Balance (650) (<i>With</i> Rate Incr.)		\$3,373,757	\$1,370,568	\$1,215,249	\$1,522,946	\$1,776,663	\$1,968,372
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,768,000	\$1,689,000	\$1,740,000	\$1,793,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482
Interest Earnings		\$29,000	\$7,662	\$39,000	\$56,000	\$50,000	\$68,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>	<u>\$675,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$1,006,482	\$1,447,482	\$1,307,482	\$1,760,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$2,868,900	\$2,513,597	\$2,673,560
Total Reserves (<i>With</i> Rate Increases)		\$8,185,218	\$3,399,883	\$3,180,564	\$4,019,261	\$4,226,978	\$4,969,687
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,559,000	\$4,528,000	\$4,628,000	\$4,832,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From Operations (650)		\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		(\$1,178,961)	(\$900,234)	(\$745,000)	(\$120,000)	(\$620,000)	(\$120,000)
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

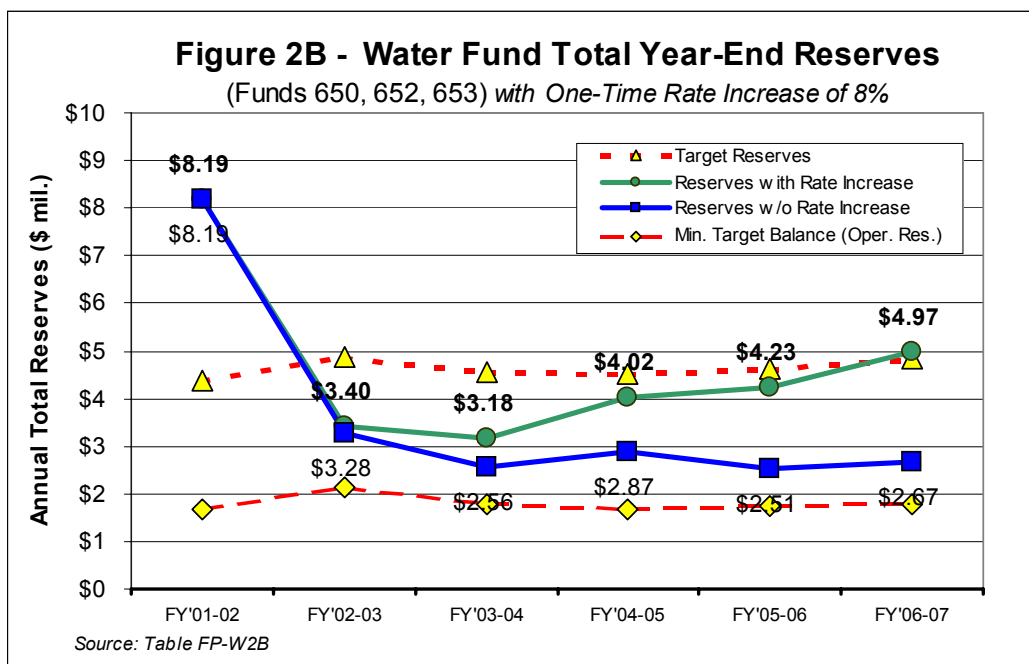
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



ALTERNATIVE 3 – ADDITIONAL DEBT ONLY

For this third alternative, we have assumed the City would issue an additional \$2 million in revenue bonds in FY 04-05 to fund projects in the Water Capital Projects Fund (653). We have assumed that the resulting debt service is based on a repayment period of 20 years, an interest rate of 6%, and issuance and reserve costs of 10%.

The primary benefits of this approach, which is in-lieu of rate increases, is that it avoids any rate increases, helps level out the ending fund balances, avoid deficits in fund 653, and meets overall reserve targets. The amount of additional debt incurred is a very moderate increase to the \$8 million already planned for FY 04-05. However, this does have the effect of increasing the City's repayment obligations and slightly increasing the City's revenue requirements in the long term when compared to a pay-as-you-go approach.

Table FP-W3A shows that the revenue requirements are slightly different than in Alternatives 1 and 2. This is due to different transfers to and from the reserve funds. Table FP-W3C shows the annual surplus/deficits with no rate increases, which are carried forward into the reserve fund balances shown in Table FP-W3B.

Table FP-W3A

Projected Water Fund Revenue Requirements - Alternative 3 (Additional Debt Only)

City of Morgan Hill

Water Fund Expenses	FY'01-02	FY'02-03	Water Financial Plan - Projected Revenue Req'ts. (b)			
	Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations						
Employee Services	\$864,807	\$950,991	\$1,036,200	\$1,067,200	\$1,099,200	\$1,132,200
Supplies & Services (Excl. Water Purchases)	1,338,095	1,652,130	1,675,000	1,725,300	1,776,900	1,830,300
Capital Outlay	73,760	64,275	106,200	68,200	70,200	72,200
Debt Service	554,481	551,372	551,300	551,300	551,300	551,300
Subtotal - Water Operations	\$2,831,143	\$3,218,768	\$3,368,700	\$3,412,000	\$3,497,600	\$3,586,000
Meter Reading/Reporting						
Personnel	229,987	216,278	222,600	229,200	236,100	243,100
Supplies & Services	47,087	81,260	83,700	85,900	88,300	90,800
Capital Outlay	c 174,446	319,340	329,000	338,800	349,000	359,400
Subtotal - Meter Reading	451,520	616,878	635,300	653,900	673,400	693,300
Utility Billing	300,053	347,753	358,000	368,600	379,700	390,900
Water Conservation	13,048	11,320	11,600	11,900	12,200	12,500
Total - Water Operations (w/o Water Purchases)	3,595,764	4,194,719	4,373,600	4,446,400	4,562,900	4,682,700
Water Purchases (Pump Tax)	1,005,316	1,115,847	1,217,000	1,279,000	1,343,000	1,411,000
Total - Water Operations (with Water Purchases)	4,601,080	5,310,566	5,590,600	5,725,400	5,905,900	6,093,700
Transfers Out To/(In From)						
Internal Service (45000)	264,808	317,299	326,800	336,600	346,700	357,100
Water Impact Fund (651)	0	1,335,000	0	(471,963)	(471,963)	(471,963)
Rate Stabil. Fund (652)	0	0	50,000	50,000	50,000	50,000
Capital Projects Fund (653)	1,450,000	1,200,000	350,000	350,000	350,000	350,000
Other (202, 720)	365,000	417,500	430,000	442,900	456,200	469,900
Subtotal - Transfers	2,079,808	3,269,799	1,156,800	707,537	730,937	755,037
Total - Operations & Transfers	6,680,888	8,580,365	6,747,400	6,432,937	6,636,837	6,848,737
less Misc. Non-Rate Revenue	d (\$356,495)	(\$401,347)	(\$419,500)	(\$427,700)	(\$436,100)	(\$444,700)
Net Revenue Requirements	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Annual Change in Revenue Requirements		29.3%	-22.6%	-5.1%	3.3%	3.3%

a. From App. Table BP-W1, Water Operations - Summary of Budget Projections. Source of FY '01-02: Budget Expense Summary for Fund 650 Water, Apr. 19, 2001.

b. Projected using FY'01-02 budget and the inflation rates shown in Appendix Table BP-W1.

c. Includes "Debt Service" and "Int. Ser. & Transfers", which are projected as \$0.

d. Includes use of money and property, reimbursement of expenses, meter installations, delinquent charges, and other misc. current service charges.

e. From "Transfers In" section of Table BP-S2, Projected Sewer Operations - Fund 640.

Table FP-W3C

Water Rate Increases - Alternative 3 (Additional Debt Only)

City of Morgan Hill

	FY'01-02	FY'02-03	Water Financial Plan - Rate Increase Alternative			
	Est. Actual (b)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Net Revenue Requirements (a)	\$6,324,393	\$8,179,018	\$6,327,900	\$6,005,237	\$6,200,737	\$6,404,037
Revenue from Rates						
Revenue from Current Rates (c)	\$5,991,000	\$5,855,915	\$5,973,000	\$6,092,000	\$6,214,000	\$6,338,000
Revenue from previous years' rate increases	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Current Year Surplus/(Deficit) (d)	\$ (333,393)	\$ (2,323,103)	\$ (354,900)	\$ 86,763	\$ 13,263	\$ (66,037)
Surplus/(Deficit) (No Rate Increases)		(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Rate Increase Alternative		0.0%	0.0%	0.0%	0.0%	0.0%
Cumulative Rate Increase		0.0%	0.0%	0.0%	0.0%	0.0%
REVENUE FROM RATE INCREASES (e)						
Effective March 1, 2002		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2003		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2004		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2005		\$0	\$0	\$0	\$0	\$0
Effective July 1, 2006		\$0	\$0	\$0	\$0	\$0
Subtotal - Revenue from Rate Increases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Rate Revenue	\$ 5,991,000	\$ 5,855,915	\$ 5,973,000	\$ 6,092,000	\$ 6,214,000	\$ 6,338,000
Annual Surplus/(Deficit) after Rate Increase	f \$ (333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)

a. From Table FP-W3A.

b. Approximate rate increase needed to meet Net Revenue Requirements. Calculated in conjunction with the reserve contributions shown in Table FP-W3B.

c. Based on 01/02 Proposed Budget, from Budget Revenue Summary, Fund 650 Water, plus an assumed growth rate of 2% from the Morgan Hill General Plan, Comm. Devel., p.25, July 2001.

d. Before current year rate increase.

Assumed Growth Rate = 2.00%

e. Rate revenue from the rate increase shown and assuming the adopted date below.

f. Transferred to Fund 650 Working Capital.

Table FP-W3B

Projected Reserve Contributions and Balances - Alternative 3 (Additional Debt Only)

City of Morgan Hill

		FY'01-02	FY'02-03	Water Financial Plan - Transfers and Reserve Balances			
		Est. Actual (a)	Current Plan	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Water Operations Reserve Fund (650)							
<i>Fund Balance Without Rate Increases</i>							
Beginning Fund Balance		\$3,480,150 <i>b</i>	\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383
Annual Surplus/(Deficit)		(\$333,393)	(\$2,323,103)	(\$354,900)	\$86,763	\$13,263	(\$66,037)
Interest Income		<u>\$227,000</u>	<u>\$202,796</u>	<u>\$35,942</u>	<u>\$40,850</u>	<u>\$43,015</u>	<u>\$42,094</u>
Ending Fund Balance (650) (<i>Without</i> Rate Incr.)		\$3,373,757	\$1,253,450	\$934,492	\$1,062,105	\$1,118,383	\$1,094,440
Minimum Target Ending Balance (25% of Oper. Budget)		\$1,670,000	\$2,145,000	\$1,687,000	\$1,608,000	\$1,659,000	\$1,712,000
Water Rate Stabilization Fund (652)							
Beginning Fund Balance		\$797,457 <i>b</i>	\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833
Interest Income		\$42,000	\$32,844	\$37,000	\$40,000	\$44,000	\$48,000
Internal Services		(\$468)	\$0	\$0	\$0	\$0	\$0
Transfer In from (Out to) Operations (650)		<u>\$0</u>	<u>\$0</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$50,000</u>
Ending Fund Balance		\$838,989	\$871,833	\$958,833	\$1,048,833	\$1,142,833	\$1,240,833
Target Ending Balance (20% of Water Sales) <i>f</i>		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,300,000
Water Capital Projects Fund (653)							
Beginning Fund Balance	<i>g</i>	\$3,648,853 <i>b</i>	\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482
Interest Earnings		\$29,000	\$7,662	\$26,000	\$109,000	\$85,000	\$83,000
Use of Money & Property		\$0	\$0	\$0	\$0	\$0	\$0
Re-Budgeted Capital Projects		\$0	(\$3,211,697)	\$0	\$0	\$0	\$0
Proceeds from New Revenue Bonds					\$2,000,000		
Repayment of New Revenue Bonds						(\$190,000)	(\$190,000)
Transfer In/(Out) Cap Proj. (Cur. Users)		(\$1,155,381)	(\$810,955)	(\$865,000)	(\$290,000)	(\$865,000)	(\$290,000)
Transfer in from/(out to) Operations (650) <i>e</i>		<u>\$1,450,000</u>	<u>\$1,200,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>	<u>\$350,000</u>
Ending Fund Balance		\$3,972,472	\$1,157,482	\$668,482	\$2,837,482	\$2,217,482	\$2,170,482
Target Ending Balance (Highest Annual CIP) <i>h</i>		\$1,500,000	\$1,545,000	\$1,591,000	\$1,639,000	\$1,688,000	\$1,739,000
Total Water Reserves (650, 652, 653) - Ending Balances							
Total Reserves (<i>Without</i> Rate Increases)		\$8,185,218	\$3,282,765	\$2,561,807	\$4,948,420	\$4,478,698	\$4,505,755
Total Target Reserves (650, 652, 653)		\$4,370,000	\$4,890,000	\$4,478,000	\$4,447,000	\$4,547,000	\$4,751,000
Water Impact Fund (651)							
Beginning Fund Balance		\$1,488,429 <i>b</i>	\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637
Interest Income		\$39,000	\$17,102	\$14,000	\$68,000	\$41,000	\$33,000
Impact Fees Received	<i>d</i>	\$204,000	\$407,468	\$376,000	\$436,000	\$478,000	\$502,000
Proceeds from New Revenue Bonds					\$1,500,000		
Repayment of New Revenue Bonds						(\$140,000)	(\$140,000)
Re-Budgeted Capital Projects		\$0	(\$1,394,241)	\$0	\$0	\$0	\$0
Transfer In From (Out To) Operations (650)		\$0	\$1,335,000	\$0	\$0	\$0	\$0
Repayment of Transfer From Operations (650)			\$0		(\$471,963)	(\$471,963)	(\$471,963)
Well Construction Refund (One-time)			\$0	\$700,000	\$0	\$0	\$0
Transfer (Out) - Water CIP (Future Users) <i>e</i>		<u>(\$1,178,961)</u>	<u>(\$900,234)</u>	<u>(\$745,000)</u>	<u>(\$120,000)</u>	<u>(\$620,000)</u>	<u>(\$120,000)</u>
Ending Fund Balance		\$552,468	\$17,563	\$362,563	\$1,774,600	\$1,061,637	\$864,674
Minimum Target Ending Balance (Ave. of CIP)		\$660,000	\$680,000	\$700,000	\$720,000	\$740,000	\$760,000
Balance Owed on Transfer From Operations (650)				\$1,375,050	\$930,180	\$471,963	\$0

Note: Transfers in **Bold Italics Font** are manual adjustments.

a. FY'01-02 is based on the City's 01/02 Proposed Budget, Fund 650 Water.

b. From City Finance Department records, 2/26/02.

c. Determined in Water Rate Stabilization Fund (652) and Water Capital Projects Fund (653) below.

d. FY'01-02 and FY 02-03 are from current budget. After FY 02-03, revenues reflect new Impact Fees from Resolution 5592 as shown in Table CF-3.

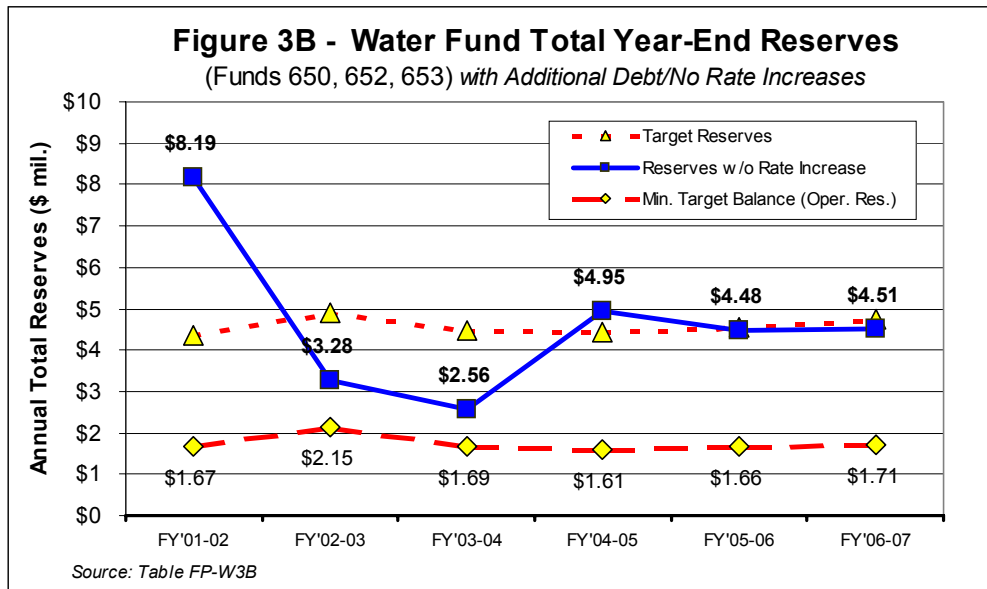
e. From Table FP-W4, Summary of 5-Year CIP Water Projects. Funding sources in this table cover capital project costs from either Fund 651 or 653. FY 01-02 and 02-03 are budget numbers.

f. 20% of water sales to reflect a severe 1-year drought, rounded to nearest \$100,000.

g. On 6/30/01, the Water System Replacement Fund 655 was combined into the Water Capital Projects Funds 653. The FY'01-02 beginning balance is for both funds.

Source: City Finance Dept records, 2/26/02.

h. Target ending balance is the 5-year average CIP project costs for current users, from Table FP-W4.



As shown in each of these three alternatives, the rate increases or additional debt are sufficient to maintain the year-end total reserve balances at or near the target level by the end of FY 06-07. However, each of them have their own benefits and difficulties, which the City will need to consider in developing more concrete plans for future funding of water revenue requirements.

APPENDIX A

Supporting Tables for Water Revenue Requirements

Table FP-W4

Summary of 5-Year CIP Water Projects

City of Morgan Hill

Project Name	Project Number	Water Financial Plan - Projected CIP Costs				
		FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
New Well Property/Construction	601.093	\$700,000	\$0	\$0	\$500,000	\$0
New Water Mains	603.093	120,000	120,000	120,000	120,000	120,000
Edmundson Main Distribution	619.002	80,000	625,000	0	0	0
Radio Telemetry	606.093	520,000	0	0	0	0
Rehabilitate Water Wells	608.093	0	190,000	0	190,000	0
Booster Pumps Rehabilitation	607.093	0	350,000	0	350,000	0
Polybutylene Service Replacement	615.095	0	325,000	0	325,000	0
Water Main Replacement	610.093	290,000	0	290,000	0	290,000
Total Projects Costs		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Funding Sources						
317 - Redevelopment Agency		\$0	\$0	\$0	\$0	\$0
651 - Water Capital Exp. Fund		\$900,000	\$745,000	\$120,000	\$620,000	\$120,000
653 - Water Replacement Fund		\$810,000	\$865,000	\$290,000	\$865,000	\$290,000
Total Project Funding		\$1,710,000	\$1,610,000	\$410,000	\$1,485,000	\$410,000
Net Cost/(Surplus)		\$0	\$0	\$0	\$0	\$0

a. Source: Water System Master Plan - Final Administrative Draft Report, Table ES.2, Carollo Engineers, January 9, 2002.

b. Total costs of all intermediate-term projects allocated to current users is \$7,396,500. These projects are planned for FY 2005-10. The costs shown are assumed to be the average annual cost of those projects.

c. From Table FP-W3. Transfer from either Fund 651 or 653.

Table BP-W1

Water Operations - Summary of Budget Projections

City of Morgan Hill

Budget Category	FY'01-02		% Adjustment to '02-03	FY'02-03 Adopted	FY'02-03 Adjusted	Projected Revenue Requirements (b)			
	Est.	Actual (a)				FY'03-04	FY'04-05	FY'05-06	FY'06-07
Total Water Operations	\$ 3,836,459	110.17%		\$ 4,507,358	\$ 4,334,615	\$ 4,585,700	\$ 4,691,000	\$ 4,840,600	\$ 4,997,000
Total Meter Read/Rpr.	\$ 451,520	0.00%		\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300
Total Utility Billing	\$ 300,053	0.00%		\$ 347,753	\$ 347,753	\$ 358,000	\$ 368,600	\$ 379,700	\$ 390,900
Total Water Conservation	\$ 13,048	0.00%		\$ 11,320	\$ 11,320	\$ 11,600	\$ 11,900	\$ 12,200	\$ 12,500
Transfers	\$ 2,079,808			\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037
Total	\$ 6,680,888	110.17%		\$ 7,878,108	\$ 8,580,365	\$ 7,072,400	\$ 6,757,937	\$ 6,961,837	\$ 7,173,737
Plus Encumbrances	\$ 167,748	0.00%		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Non-Rate Revenues	\$ (524,243)	0.00%		\$ (401,647)	\$ (401,347)	\$ (419,500)	\$ (427,700)	\$ (436,100)	\$ (444,700)
Total Enterprise Costs:	\$ 6,324,393	110.17%		\$ 7,476,461	\$ 8,179,018	\$ 6,652,900	\$ 6,330,237	\$ 6,525,737	\$ 6,729,037
% Annual Increase				18.2%		-11.0%	-4.8%	3.1%	3.1%

a. Source of FY'01-02: FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002.

b. FY'02-03 are from FY 2002/03 Budget Process, from Jack Dilles, April 23, 2002. Following years are based on 02-03 Requested Budget and projected inflation rates.

Table CF-3

Growth-Related CIP Costs and Connection Fee Revenue

City of Morgan Hill

Future Growth	Projected					
	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Projected Number of DU's (a)	12,186	12,430	12,678	12,932	13,190	13,454
Growth Rate (b)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
No. of New DU's per Growth Rate	239	244	249	254	259	264
Projected Impact Fee Revenue						
Water Utility Impact Fee (c)			\$1,514	\$1,719	\$1,848	\$1,904
Water Utility Impact Fee Revenue (d)			\$376,000	\$436,000	\$478,000	\$502,000
Sewer Utility Impact Fee (c)			\$6,960	\$7,830	\$8,389	\$8,641
Sewer Utility Impact Fee Revenue (d)			\$1,730,000	\$1,985,000	\$2,170,000	\$2,279,000

a. Number of equivalent dwelling units based on City records (see Table SC-W1). EDUs include non-residential customers.

b. From Sewer System Master Plan - Final Administrative Draft Report, Table 2.2, Carollo Engineers, January 9, 2002.

c. Impact Fees adopted in City Resolution 5592, effective 1-15-03. Average of consecutive fiscal year fees is used to account for mid-year effective date.

	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Current and Adopted Water Impact Fees	\$1,154	\$1,411	\$1,616	\$1,821	\$1,876	\$1,932
Fiscal Year Average		\$1,283	\$1,514	\$1,719	\$1,848	\$1,904
Current and Adopted Sewer Impact Fees	\$5,416	\$6,525	\$7,395	\$8,265	\$8,513	\$8,768
Fiscal Year Average		\$5,971	\$6,960	\$7,830	\$8,389	\$8,641

FY 05-06 and 06-07 are projected at 3%/year inflation.

d. Number of new EDUs times the Impact Fees. Rounded to the nearest \$1,000.

Table BP-W2

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

	FY'01-02	% Adjustment	FY'02-03	FY'02-03	Projected Revenue Requirements (b)				Inflation
	Est. Actual	to '02-03	Adopted	Adjusted	FY'03-04	FY'04-05	FY'05-06	FY'06-07	Rate Used
Water Operations -- Employee Services									
41100 Salaries-General	\$ 585,862	100.00%	\$ 738,787	\$ 738,787	\$ 761,000	\$ 783,800	\$ 807,300	\$ 831,500	3.0%
41100 Additional Utility Worker	\$ -	100.00%	\$ -	\$ -	\$ 56,700	\$ 58,400	\$ 60,200	\$ 62,000	3.0%
41320 Salaries-Other Payouts	\$ 18,915	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 48,663	100.00%	\$ 57,000	\$ 57,000	\$ 58,700	\$ 60,500	\$ 62,300	\$ 64,200	3.0%
41799 Benefits	\$ 158,165	100.00%	\$ 192,169	\$ 192,169	\$ 197,900	\$ 203,800	\$ 209,900	\$ 216,200	3.0%
41800 Uniform	\$ 7,633	100.00%	\$ 9,535	\$ 9,535	\$ 9,800	\$ 10,100	\$ 10,400	\$ 10,700	3.0%
41900 Contract Labor	\$ 45,569	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
5% Vacancy Factor			\$ (46,500)	\$ (46,500)	\$ (47,900)	\$ (49,400)	\$ (50,900)	\$ (52,400)	
Subtotal	\$ 864,807	100.00%	\$ 950,991	\$ 950,991	\$ 1,036,200	\$ 1,067,200	\$ 1,099,200	\$ 1,132,200	
Water Operations -- Supplies & Services									
42205 Taxes - SCUWD Pump Tax	\$ 1,005,316	96.29%	\$ 1,158,840	\$ 1,115,847	\$ 1,217,000	\$ 1,279,000	\$ 1,343,000	\$ 1,411,000	=====>
42208 Electric	\$ 785,211	89.62%	\$ 960,750	\$ 861,000	\$ 860,100	\$ 885,900	\$ 912,500	\$ 939,900	3.0%
42214 Telephone	\$ 20,989	100.00%	\$ 25,000	\$ 25,000	\$ 25,800	\$ 26,600	\$ 27,400	\$ 28,200	3.0%
42228 Gasoline & Oil	\$ 12,057	100.00%	\$ 38,665	\$ 38,665	\$ 39,800	\$ 41,000	\$ 42,200	\$ 43,500	3.0%
42231 Contract Services	\$ 242,600	90.63%	\$ 320,130	\$ 290,130	\$ 298,800	\$ 307,800	\$ 317,000	\$ 326,500	3.0%
42240 Rentals-Outside	\$ 18,993	100.00%	\$ 6,000	\$ 6,000	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
42242 Rents	\$ 29,855	100.00%	\$ 24,457	\$ 24,457	\$ 25,200	\$ 26,000	\$ 26,800	\$ 27,600	3.0%
42244 Stationary & Off. Supp.	\$ 4,315	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42248 Other Supplies	\$ 95,158	100.00%	\$ 151,800	\$ 151,800	\$ 156,400	\$ 161,100	\$ 165,900	\$ 170,900	3.0%
42250 Advertising	\$ 522	100.00%	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42252 Photocopying	\$ -	100.00%	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42254 Postage & Freight	\$ 590	100.00%	\$ 3,200	\$ 3,200	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42257 Printing	\$ 2,379	100.00%	\$ 5,200	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	\$ 6,000	3.0%
42261 Auto Mileage	\$ -	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42265 Auto Allowance	\$ (33)	100.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42273 Wtr/Sewer Maint. Service	\$ 13,401	100.00%	\$ 81,500	\$ 81,500	\$ 83,900	\$ 86,400	\$ 89,000	\$ 91,700	3.0%
42281 Small Tools	\$ 4,253	100.00%	\$ 4,250	\$ 4,250	\$ 4,400	\$ 4,500	\$ 4,600	\$ 4,700	3.0%
42299 Other Expense	\$ 12,561	100.00%	\$ 20,000	\$ 20,000	\$ 20,600	\$ 21,200	\$ 21,800	\$ 22,500	3.0%
42408 Training & Education	\$ 11,776	100.00%	\$ 15,000	\$ 15,000	\$ 15,500	\$ 16,000	\$ 16,500	\$ 17,000	3.0%
42415 Conference & Meetings	\$ 2,763	100.00%	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42423 Membership & Dues	\$ 2,113	100.00%	\$ 2,700	\$ 2,700	\$ 2,800	\$ 2,900	\$ 3,000	\$ 3,100	3.0%
42435 Subscription & Pub.	\$ 783	100.00%	\$ 915	\$ 915	\$ 900	\$ 900	\$ 900	\$ 900	3.0%
42510 Maint.-Bldgs/Improve.	\$ -	100.00%	\$ 5,500	\$ 5,500	\$ 5,700	\$ 5,900	\$ 6,100	\$ 6,300	3.0%
42523 Maint.-Mach/Equipment	\$ 3,843	100.00%	\$ 9,000	\$ 9,000	\$ 9,300	\$ 9,600	\$ 9,900	\$ 10,200	3.0%
42526 Maint.-Auto/Trucks	\$ 20,409	100.00%	\$ 23,000	\$ 23,000	\$ 23,700	\$ 24,400	\$ 25,100	\$ 25,900	3.0%
42531 Maint.-Furn/Off Equip	\$ 360	100.00%	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42536 Maint.-Other	\$ 641	100.00%	\$ 1,650	\$ 1,650	\$ 1,700	\$ 1,800	\$ 1,900	\$ 2,000	3.0%
42550 Fleet Replacement Charge	\$ 52,556	100.00%	\$ 72,763	\$ 72,763	\$ 74,900	\$ 77,100	\$ 79,400	\$ 81,800	3.0%
Subtotal	\$ 2,343,411	94.13%	\$ 2,940,720	\$ 2,767,977	\$ 2,892,000	\$ 3,004,300	\$ 3,119,900	\$ 3,241,300	
Water Operations -- Capital Outlay									
43825 Machinery/Equipment	\$ 54,773	100.00%	\$ 44,000	\$ 44,000	\$ 85,300	\$ 46,700	\$ 48,100	\$ 49,500	3.0%
43835 Furniture/Office Equip	\$ 5,876	100.00%	\$ 7,425	\$ 7,425	\$ 7,600	\$ 7,800	\$ 8,000	\$ 8,200	3.0%
43840 Computer Equipment	\$ 7,608	100.00%	\$ 6,865	\$ 6,865	\$ 7,100	\$ 7,300	\$ 7,500	\$ 7,700	3.0%
43845 Computer Software	\$ 5,503	100.00%	\$ 5,985	\$ 5,985	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800	3.0%
Subtotal	\$ 73,760	100.00%	\$ 64,275	\$ 64,275	\$ 106,200	\$ 68,200	\$ 70,200	\$ 72,200	
Water Operations -- Debt Service									
44990 Principal	\$ 210,320	100.00%	\$ 210,320	\$ 210,320	\$ 210,300	\$ 210,300	\$ 210,300	\$ 210,300	
44991 Interest	\$ 337,720	100.00%	\$ 337,720	\$ 337,720	\$ 337,700	\$ 337,700	\$ 337,700	\$ 337,700	
44994-5 Lease/Service Payments	\$ 6,441	100.00%	\$ 3,332	\$ 3,332	\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,300	
Subtotal	\$ 554,481	100.00%	\$ 551,372	\$ 551,372	\$ 551,300	\$ 551,300	\$ 551,300	\$ 551,300	
Water Operations - Internal Service & Transfers									
45000 Internal Service	\$ 264,808	100.00%	\$ 317,299	\$ 317,299	\$ 326,800	\$ 336,600	\$ 346,700	\$ 357,100	3.0%
Tran. Out - Street Maintenance	\$ 350,000	100.00%	\$ 400,000	\$ 400,000	\$ 412,000	\$ 424,400	\$ 437,100	\$ 450,200	3.0%
Tran. Out One-Time (651)	\$ -	100.00%	\$ 460,000	\$ 1,335,000	\$ -	\$ (471,963)	\$ (471,963)	\$ (471,963)	
Tran. Out (In) (652)	\$ -			\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	
Tran. Out - General Fund	\$ 15,000	100.00%	\$ 17,500	\$ 17,500	\$ 18,000	\$ 18,500	\$ 19,100	\$ 19,700	3.0%
Tran. Out - Water Replac. (65)	\$ 1,450,000	100.00%	\$ 1,200,000	\$ 1,200,000	\$ 675,000	\$ 675,000	\$ 675,000	\$ 675,000	
49000 Subtotal - Transfers Out	\$ 1,815,000	100.00%	\$ 2,077,500	\$ 2,952,500	\$ 1,155,000	\$ 695,937	\$ 709,237	\$ 722,937	3.0%
Subtotal - Int. Ser. & Trans. Out	\$ 2,079,808	136.54%	\$ 2,394,799	\$ 3,269,799	\$ 1,481,800	\$ 1,032,537	\$ 1,055,937	\$ 1,080,037	
Total Water Operations	\$ 5,916,267	110.17%	\$ 6,902,157	\$ 7,604,414	\$ 6,067,500	\$ 5,723,537	\$ 5,896,537	\$ 6,077,037	

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)

City of Morgan Hill

METER READING/REPORTING**Meter Read/Rpr. -- Personnel**

41100 Salaries-General	\$ 176,670	\$ 166,260	\$ 166,260	\$ 171,200	\$ 176,300	\$ 181,600	\$ 187,000	3.0%
41320 Salaries-Other Payouts	\$ 2,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41490 Overtime-General	\$ 1,629	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	3.0%
41799 Benefits	\$ 47,214	\$ 45,768	\$ 45,768	\$ 47,100	\$ 48,500	\$ 50,000	\$ 51,500	3.0%
41800 Uniform	\$ 1,669	\$ 3,050	\$ 3,050	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
Subtotal	\$ 229,987	\$ 216,278	\$ 216,278	\$ 222,600	\$ 229,200	\$ 236,100	\$ 243,100	

Meter Read/Rpr. -- Supplies & Services

42228 Gasoline & Oil	\$ 2,390	\$ 3,482	\$ 3,482	\$ 3,600	\$ 3,700	\$ 3,800	\$ 3,900	3.0%
42231 Contract Services	\$ 10,629	\$ 30,280	\$ 30,280	\$ 31,200	\$ 32,100	\$ 33,100	\$ 34,100	3.0%
42240-2 Rentals-Outside	\$ 697	\$ 746	\$ 746	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
42244 Stationary & Off. Supp.	\$ 401	\$ 425	\$ 425	\$ 400	\$ 400	\$ 400	\$ 400	3.0%
42248 Other Supplies	\$ 20,165	\$ 30,700	\$ 30,700	\$ 31,600	\$ 32,500	\$ 33,500	\$ 34,500	3.0%
42252 Photocopying	\$ -	\$ 105	\$ 105	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42254 Postage & Freight	\$ 7	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	3.0%
42257 Printing	\$ -	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	3.0%
42281 Small Tools	\$ 1,750	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	3.0%
42408 Training & Education	\$ 802	\$ 1,510	\$ 1,510	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	3.0%
42523 Maint.-Mach/Equipment	\$ -	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
42526 Maint.-Auto/Trucks	\$ 7,337	\$ 7,720	\$ 7,720	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	3.0%
42531 Maint.-Furn/Off Equip	\$ 46	\$ 210	\$ 210	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42536 Maint.-Other	\$ 410	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
42550 Fleet Replacement Charge	\$ 2,453	\$ 2,382	\$ 2,382	\$ 2,500	\$ 2,600	\$ 2,700	\$ 2,800	3.0%
Subtotal	\$ 47,087	\$ 81,260	\$ 81,260	\$ 83,700	\$ 85,900	\$ 88,300	\$ 90,800	

Meter Read/Rpr. -- Capital Outlay

43825 Machinery/Equipment	\$ -	\$ 3,000	\$ 3,000	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	3.0%
43835 Furniture/Office Equip	\$ 344	\$ 1,425	\$ 1,425	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
43840 Computer Equipment	\$ 272	\$ 810	\$ 810	\$ 800	\$ 800	\$ 800	\$ 800	3.0%
43845 Computer Software	\$ 1,310	\$ 1,810	\$ 1,810	\$ 1,900	\$ 2,000	\$ 2,100	\$ 2,200	3.0%
43897 Meters	\$ 118,021	\$ 250,000	\$ 250,000	\$ 257,500	\$ 265,200	\$ 273,200	\$ 281,400	3.0%
Subtotal	\$ 119,947	\$ 257,045	\$ 257,045	\$ 264,800	\$ 272,700	\$ 280,900	\$ 289,300	

Debt Service

44991 Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
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Meter Read/Rpr. - Internal Service & Transfers

Subtotal	\$ 54,499	\$ 62,295	\$ 62,295	\$ 64,200	\$ 66,100	\$ 68,100	\$ 70,100	3.0%
Total Meter Read/Rpr	\$ 451,520	\$ 616,878	\$ 616,878	\$ 635,300	\$ 653,900	\$ 673,400	\$ 693,300	

UTILITY BILLING**Utility Billing -- Employee Services**

41100 Salaries-General	\$ 120,497	\$ 144,604	\$ 144,604	\$ 148,900	\$ 153,400	\$ 158,000	\$ 162,700	3.0%
41270 Salaries-Part-Time	\$ 12,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
41320 Salaries-Other Payouts	\$ 1,648	\$ 2,200	\$ 2,200	\$ 2,300	\$ 2,400	\$ 2,500	\$ 2,600	3.0%
41490 Overtime-General	\$ 610	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	3.0%
41799 Benefits	\$ 32,801	\$ 33,597	\$ 33,597	\$ 34,600	\$ 35,600	\$ 36,700	\$ 37,800	3.0%
41900 Contract Labor	\$ 8,985	\$ 5,000	\$ 5,000	\$ 5,200	\$ 5,400	\$ 5,600	\$ 5,800	3.0%
Subtotal	\$ 177,145	\$ 186,901	\$ 186,901	\$ 192,500	\$ 198,300	\$ 204,300	\$ 210,400	

Utility Billing -- Supplies & Services

42214 Telephone	\$ 2,351	\$ 3,230	\$ 3,230	\$ 3,300	\$ 3,400	\$ 3,500	\$ 3,600	3.0%
42231 Contract Services	\$ 14,219	\$ 36,316	\$ 36,316	\$ 37,400	\$ 38,500	\$ 39,700	\$ 40,900	3.0%
42244 Stationary & Off. Supp.	\$ 1,900	\$ 4,500	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900	3.0%
42252 Photocopying	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42254 Postage & Freight	\$ 45,498	\$ 46,800	\$ 46,800	\$ 48,200	\$ 49,600	\$ 51,100	\$ 52,600	3.0%
42257 Printing	\$ 4,199	\$ 4,000	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	3.0%
42261 Auto Mileage	\$ (9)	\$ 235	\$ 235	\$ 200	\$ 200	\$ 200	\$ 200	3.0%
42408 Training & Education	\$ -	\$ 3,400	\$ 3,400	\$ 3,500	\$ 3,600	\$ 3,700	\$ 3,800	3.0%
42435 Subscription & Pub.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
42531 Maint.-Furn/Off Equip	\$ 294	\$ 712	\$ 712	\$ 700	\$ 700	\$ 700	\$ 700	3.0%
Subtotal	\$ 68,462	\$ 99,193	\$ 99,193	\$ 102,000	\$ 104,900	\$ 108,000	\$ 111,100	

Utility Billing -- Capital Outlay

43835 Furniture/Office Equip	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43840 Computer Equipment	\$ 2,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
43845 Computer Software	\$ 3,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 6,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Utility Billing -- Debt Service

Table BP-W2 (cont.)

Projected Water Operations - Fund 650 (a)
*City of Morgan Hill***Water Fund 650 Revenues (b)****Use of Money & Property**

		----- Included in Table FP-W3 -----						
Interest Income								3.0%
Rent & Concessions	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	3.0%
Subtotal	\$ 12,000	\$ 8,000	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,700	\$ 9,000	
Charges Current Services								
Administration Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Front Footage/Offsite	\$ 100,000	\$ 25,000	\$ 25,000	\$ 25,300	\$ 25,600	\$ 25,900	\$ 26,200	1.0%
Meter Install & Service	\$ 75,000	\$ 48,000	\$ 48,000	\$ 48,500	\$ 49,000	\$ 49,500	\$ 50,000	1.0%
Delinq. Water Turn Off/On	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Fire Hydrant Charge	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,200	\$ 20,400	\$ 20,600	\$ 20,800	1.0%
Subtotal	\$ 195,000	\$ 93,000	\$ 93,000	\$ 94,000	\$ 95,000	\$ 96,000	\$ 97,000	
Other Revenue								
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Connection Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Misc. Reimbursement	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Reimb. of Expenses/FEMA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Surplus Sales	\$ -	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	3.0%
Misc. Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Subtotal	\$ 10,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	
Charges Current Service								
Utility Account Set-up	\$ 22,400	\$ 29,500	\$ 29,500	\$ 29,800	\$ 30,100	\$ 30,400	\$ 30,700	1.0%
Annual Backflow Inspect	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1.0%
Const. Inspect.-Backflow	\$ 6,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	1.0%
Utility Bill Delinq Chr.	\$ 12,000	\$ 15,000	\$ 15,000	\$ 15,200	\$ 15,400	\$ 15,600	\$ 15,800	1.0%
Delinquent Bill Charge	\$ 24,000	\$ 68,770	\$ 68,770	\$ 69,500	\$ 70,200	\$ 70,900	\$ 71,600	1.0%
Utility Service Call	\$ 2,000	\$ 8,200	\$ 8,200	\$ 8,300	\$ 8,400	\$ 8,500	\$ 8,600	1.0%
Chgs-Curr/Plans & Specs	\$ 300	\$ 300	\$ -	\$ 300	\$ 300	\$ 300	\$ 300	1.0%
Subtotal	\$ 66,700	\$ 125,770	\$ 125,470	\$ 127,100	\$ 128,400	\$ 129,700	\$ 131,000	
Transfer In								
Transfer/GF Admin.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3.0%
Transfer-Sewer Ops.	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	3.0%
Subtotal	\$ 240,543	\$ 173,877	\$ 173,877	\$ 189,200	\$ 194,900	\$ 200,700	\$ 206,700	
Total Non-Rate Revenue	\$ 524,243	\$ 401,647	\$ 401,347	\$ 419,500	\$ 427,700	\$ 436,100	\$ 444,700	

a. Source of '01-02 subtotals: *FY 2002/03 Budget Process*, Jack Dilles, Apr 23, 2002. Details are estimated using previous '01-02 details not provided in this update.b. FY'02-03 are from *FY 2002/03 Budget Process*, from Jack Dilles, April 23, 2002. Following years are based on '02-03 Requested Budget and projected inflation rates.

c. Transfers from Water Rate Stabilization Fund are not considered here. See Financial Plan Table FP-W3.

APPENDIX B

Supporting Tables for Sewer Revenue Requirements

Table BP-S1

Budget Projections - Sewer Operations (O&M Expense Detail)

City of Morgan Hill

		YTD	5-Year Financial Plan					Inflation/Escalation Factors			
Acct	Account Name	Expenses FY01-02	Adopted Budget FY02-03	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07	Projection FY03-04	Projection FY04-05	Projection FY05-06	Projection FY06-07
EMPLOYEE SERVICES											
41100	Salaries-General	\$	681,889	\$ 702,300	\$ 723,400	\$ 745,100	\$ 767,500	3.0%	3.0%	3.0%	3.0%
41100	Additional Utility Worker		-	56,700	58,400	60,200	62,000	3.0%	3.0%	3.0%	3.0%
41320/330	Salaries-Other Payouts		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
41490	Overtime-General		20,000	20,600	21,200	21,800	22,500	3.0%	3.0%	3.0%	3.0%
41799	Benefits		175,861	181,100	186,500	192,100	197,900	3.0%	3.0%	3.0%	3.0%
41800	Uniform		9,770	10,100	10,400	10,700	11,000	3.0%	3.0%	3.0%	3.0%
41900	Contract Labor		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Employee Services	\$ 794,628	\$ 887,520	\$ 970,800	\$ 999,900	\$ 1,029,900	\$ 1,060,900				
SUPPLIES & SERVICES											
42208	Electric/Natural Gas	\$	33,075	\$ 34,100	\$ 35,100	\$ 36,200	\$ 37,300	3.0%	3.0%	3.0%	3.0%
42214	Telephone		2,300	2,400	2,500	2,600	2,700	3.0%	3.0%	3.0%	3.0%
42228	Gasoline & oil		17,914	18,500	19,100	19,700	20,300	3.0%	3.0%	3.0%	3.0%
42231	Contract Services		148,175	152,600	157,200	161,900	166,800	3.0%	3.0%	3.0%	3.0%
42240	Rents-Outside		6,500	6,700	6,900	7,100	7,300	3.0%	3.0%	3.0%	3.0%
42242	Rent-Corp. Yard		23,192	23,900	24,600	25,300	26,100	3.0%	3.0%	3.0%	3.0%
42244	Stationery & Office Supplies		1,885	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42248	Other Supplies		72,960	75,100	77,400	79,700	82,100	3.0%	3.0%	3.0%	3.0%
42250	Advertising		680	700	700	700	700	3.0%	3.0%	3.0%	3.0%
42252	Photocopying		200	200	200	200	200	3.0%	3.0%	3.0%	3.0%
42254	Postage & Freight		500	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42257	Printing		750	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42270	SCRWA		2,196,626	2,262,500	2,330,400	2,400,300	2,472,300	3.0%	3.0%	3.0%	3.0%
42273	Sewer Maintenance Service		71,875	74,000	76,200	78,500	80,900	3.0%	3.0%	3.0%	3.0%
42281	Small Tools		6,420	6,600	6,800	7,000	7,200	3.0%	3.0%	3.0%	3.0%
42299	Other Expense		475	500	500	500	500	3.0%	3.0%	3.0%	3.0%
42408	Training & Education		13,000	13,400	13,800	14,200	14,600	3.0%	3.0%	3.0%	3.0%
42415	Conference & Meetings		1,800	1,900	2,000	2,100	2,200	3.0%	3.0%	3.0%	3.0%
42423	Membership & Dues		1,000	1,000	1,000	1,000	1,000	3.0%	3.0%	3.0%	3.0%
42435	Subscriptions & Publications		350	400	400	400	400	3.0%	3.0%	3.0%	3.0%
42523	Maintenance-Machine/Equipment		7,500	7,700	7,900	8,100	8,300	3.0%	3.0%	3.0%	3.0%
42526	Maintenance-Auto & Trucks		44,000	45,300	46,700	48,100	49,500	3.0%	3.0%	3.0%	3.0%
42531	Maintenance-Furniture/Office Equip.		735	800	800	800	800	3.0%	3.0%	3.0%	3.0%
42536	Maintenance-Other		835	900	900	900	900	3.0%	3.0%	3.0%	3.0%
42550	Fleet Replacement Charge		48,939	50,400	51,900	53,500	55,100	3.0%	3.0%	3.0%	3.0%
Misc.	Depreciation & Other Expenses		-	-	-	-	-	3.0%	3.0%	3.0%	3.0%
Subtotal	Supplies & Services	\$ 2,536,052	\$ 2,701,686	\$ 2,782,800	\$ 2,866,300	\$ 2,952,200	\$ 3,040,700				
CAPITAL OUTLAY											
43825	Machinery/Equipment	\$	30,500	\$ 71,400	\$ 32,400	\$ 33,400	\$ 34,400	3.0%	3.0%	3.0%	3.0%
43835	Furniture/Office Equipment		7,425	7,600	7,800	8,000	8,200	3.0%	3.0%	3.0%	3.0%
43840	Computer Equipment		6,865	7,100	7,300	7,500	7,700	3.0%	3.0%	3.0%	3.0%
43845	Computer Software		4,935	5,100	5,300	5,500	5,700	3.0%	3.0%	3.0%	3.0%
Subtotal	Capital Outlay	\$ 45,567	\$ 49,725	\$ 91,200	\$ 52,800	\$ 54,400	\$ 56,000				
DEBT SERVICE (After FY'01-02, based on Schedules and % Allocation below)											
44990	Principal	\$	655,000	\$ 1,350,038	\$ 1,311,563	\$ 1,270,450	\$ 1,227,038	0.0%	0.0%	0.0%	0.0%
44991	Interest	\$	1,403,954	\$ 600,000	\$ 640,000	\$ 680,000	\$ 725,000	0.0%	0.0%	0.0%	0.0%
44994	Lease Payments		-	-	-	-	-	0.0%	0.0%	0.0%	0.0%
44995	Service Fees		10,720	10,720	10,720	10,720	10,720	0.0%	0.0%	0.0%	0.0%
	Savings From Re-Funding		-	(120,070)	(119,737)	(118,024)	(119,412)				
Subtotal	Debt Service	\$ 1,637,946	\$ 2,069,674	\$ 1,840,688	\$ 1,842,546	\$ 1,843,146	\$ 1,843,346				
1992 Bond Issue (From Jack Dilles, 9/21/											
	Principal	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07				
	Interest		\$1,385,598	\$1,350,038	\$1,311,563	\$1,270,450	\$1,227,038				
			\$635,000	\$600,000	\$640,000	\$680,000	\$725,000				

Table BP-S1 (Cont.)

Budget Projections - Sewer Operations (O&M Expense Detail)

City of Morgan Hill

INTERNAL SERVICES

45000	General Fund Admin.	\$	211,522	\$	217,900	\$	224,400	\$	231,100	\$	238,000	3.0%	3.0%	3.0%	3.0%
45001	Personnel Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45002	Finance Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45003	General Liability Insurance		26,448		27,200		28,000		28,800		29,700	3.0%	3.0%	3.0%	3.0%
45004	Building Maintenance		28,972		29,800		30,700		31,600		32,500	3.0%	3.0%	3.0%	3.0%
45007	Legal Services		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
45009	Information Systems		8,310		8,600		8,900		9,200		9,500	3.0%	3.0%	3.0%	3.0%
Subtotal Internal Services		\$	231,586	\$	275,252	\$	283,500	\$	292,000	\$	300,700				

TRANSFERS OUT

49201	Transfer-Street	\$	160,000	\$	200,000	\$	206,000	\$	212,200	\$	218,600	\$	225,200	3.0%	3.0%	3.0%	3.0%
49210	Transfer-General Fund		15,000		17,500		18,000		18,500		19,100		19,700	3.0%	3.0%	3.0%	3.0%
49250	Transfer-Equip Replace		-		-		-		-		-		-				
49262	Transfer-Sewer Replace		500,000		500,000		515,000		530,500		546,400		562,800	3.0%	3.0%	3.0%	3.0%
49271	Transfer-Water Operations		175,543		173,877		179,100		184,500		190,000		195,700	3.0%	3.0%	3.0%	3.0%
Misc.	Transfer-Misc Transfers		-		-		-		-		-		-	3.0%	3.0%	3.0%	3.0%
Subtotal Transfers		\$	850,543	\$	891,377	\$	918,100	\$	945,700	\$	974,100	\$	1,003,400				

Total \$ 6,096,322 \$ 6,875,234 \$ 6,887,088 \$ 6,999,246 \$ 7,154,446 \$ 7,314,046

Other (Non-Rate) Revenues

Interest Income	\$	301,002	\$	295,119	\$	304,000	\$	313,000	\$	322,000	\$	332,000	#	3.0%	3.0%	3.0%	3.0%
Administration Fee		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
J.P. Pretreatment		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Front Footage/Offsite		20,000		20,000		21,000		22,000		23,000		24,000	#	3.0%	3.0%	3.0%	3.0%
Other Revenue		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Connection Fees		5,000		5,000		5,000		5,000		5,000		5,000	#	3.0%	3.0%	3.0%	3.0%
Lift Station Charge		76,400		76,400		79,000		81,000		83,000		85,000	#	3.0%	3.0%	3.0%	3.0%
Reimb. of Expenses		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Misc. Reimbursements		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Utility Bill Delinq. Charge		15,000		12,500		13,000		13,000		13,000		13,000	#	3.0%	3.0%	3.0%	3.0%
Transfer In - Water Rate Stabil		-		-		-		-		-		-	-	3.0%	3.0%	3.0%	3.0%
Subtotal-Other Revenues		\$	417,402	\$	409,019	\$	422,000	\$	434,000	\$	446,000	\$	459,000	#			
Sewer Service Charges				\$	5,389,650												

Table FP-S4

Summary of 5-Year CIP Sewer Projects

City of Morgan Hill

Project Name		CIP No.	Sewer Financial Plan - Projected CIP Costs				
			FY'02-03	FY'03-04	FY'04-05	FY'05-06	FY'06-07
Trunk Lines		308094	\$150,000	\$400,000	\$8,000,000	\$0	\$0
Sanitary Sewer Rehabilitation		302093	350,000	350,000	350,000	350,000	350,000
Sewer Plant Imp. Project		303093	3,853,000	2,622,000	485,000	1,518,000	8,386,000
Lift Station Improvements		304093	630,000	630,000	0	0	0
Lift Station Telemetry		305093	400,000	0	0	0	0
Upgrade Existing Pipelines		301093	440,000	350,000	350,000	350,000	350,000
Total Projects Costs			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Funding Sources							
317 - Redevelopment Agency			\$0	\$0	\$0	\$0	\$0
641 - Sewer Capital Expansion Fund			\$4,003,000	\$3,022,000	\$485,000	\$1,518,000	\$8,386,000
Sewer Revenue Bonds			\$0	\$0	\$8,000,000	\$0	\$0
643 - Sewer Replacement Fund			\$1,820,000	\$1,330,000	\$700,000	\$700,000	\$700,000
Total Project Funding			\$5,823,000	\$4,352,000	\$9,185,000	\$2,218,000	\$9,086,000
Net Cost/(Surplus)			\$0	\$0	\$0	\$0	\$0



CITY COUNCIL STAFF REPORT

MEETING DATE: November 13, 2002

Agenda Item # 2

Prepared By:

Finance Director

Submitted By:

City Manager

UPDATE ON BUDGET AND REVENUE FORECAST

RECOMMENDED ACTIONS:

- 1) Direct City Manager to reduce General Fund costs to a target level 4% below budget, except Fire and Medical Services, & to minimize adverse service effects.
- 2) Approve using \$184,000 of the General Fund reserve designated for economic uncertainty to finance the 2002/03 budget.
- 3) Direct the Finance Committee to explore potential revenue sources for the General Fund.

EXECUTIVE SUMMARY: As a result of the continued economic recession, staff anticipates that the City will suffer a \$367,000 net shortfall in budgeted revenues in the current year. A projected \$530,000 shortfall in expected sales taxes, a \$100,000 decrease in State mandated cost reimbursements, and an \$87,000 drop in investment earnings are projected to be offset by an extra \$235,000 in motor vehicle-in-lieu fees, an increase of \$84,000 in TOT taxes, and an additional \$31,000 in other revenue. The sales taxes loss represents 9%, less than the amount budgeted. The actual amount collected for the latest quarter was 10% less than the amount collected one year ago. The loss in mandated cost reimbursements results from the State's Budget dilemma. Falling interest rates have caused the projected drop in investment earnings. Exhibit A summarizes General Fund revenue projections for 2002/03.

When the \$367,000 revenue shortfall is added to the \$263,000 excess of appropriations over estimated revenues for the adopted 2002/03 budget, the projected excess of expenditures over revenues without any corrective actions would be \$630,000. However, when the budget was adopted, the City Council directed staff to manage the budget to bring the \$263,000 deficit down to \$0 by year-end.

In response to the estimated shortfall, staff recommends that total General Fund expenditures this year, other than Fire and Medical Services costs, be reduced to a target level approximately 4% below the budget. This action would save \$446,000 and would meet the Council's previous direction to save the \$263,000 as well as covering \$183,000, or half, of the current revenue shortfall. To cover the remaining \$184,000 of the 2002/03 revenue shortfall, staff recommends funding from the General Fund's \$1,182,000 designation for economic uncertainty.

In reducing General Fund expenditures, our plan is to minimize service reductions, if possible. We still plan to complete the 2002/03 work plan, although some projects may be delayed. However, the proposed 4% target budget reduction is more difficult to implement this year than last because the most painless steps have already been taken. The only significant increases in General Fund costs within the 2002/03 budget related to Recreation and Police services. A "soft freeze" on new hires, consistent with our budget strategy, has been implemented and only necessary Recreation and Police positions have been filled. We are at an important, but *not* desperate point. The City's action should be to prudently manage costs within available resources, as the City has done over the past ten years. The attached staff memo further describes the impact of General Fund budget reductions.

Staff believes it is appropriate to consider the need for new or increased revenue sources, subject to Proposition 218 limits and to community support. The Finance Committee will be looking at this issue. Future alternatives will be to make deeper program cuts, raise new revenues, and/or to spend down reserves.

FISCAL IMPACT: The recommended actions will allow the City to finance budgeted activities.

SUMMARY OF PROJECTED GENERAL FUND REVENUES

2000/01 - 2002/03

EXHIBIT A

REVENUE CATEGORY	2001/02		2002/03		PROJECTED OVER(UNDR) BUDGET
	2000/01 ACTUAL	UNAUDITED FINAL	BUDGET	2002/03	
TAXES:					
Property Taxes	1,848,188	2,167,507	2,008,000	2,008,000	-
Sales Taxes	5,532,132	4,870,295	5,330,000	4,800,000	(530,000)
TOT (Hotel) Taxes	1,369,168	931,716	892,000	976,000	84,000
Franchise Fees	854,011	954,641	965,000	965,000	-
Public Safety Sales Taxes	275,253	289,705	288,400	300,000	11,600
Property Transfer Taxes	304,828	267,399	220,000	240,000	20,000
TOTAL TAXES	10,183,580	9,481,263	9,703,400	9,289,000	(414,400)
LICENSES/PERMITS	200,892	205,595	209,450	210,000	550
REVENUE FROM OTHER AGENCIES:					
Motor Vehicle In-lieu Fees	1,733,134	1,904,697	1,965,000	2,200,000	235,000
Other	413,404	254,706	228,300	128,300	(100,000)
TOTAL REVENUE FROM OTHER AGENCIES	2,146,538	2,159,403	2,193,300	2,328,300	135,000
FINES & PENALTIES	90,225	108,962	97,000	97,000	-
CHARGES - CURRENT SERVICES	348,446	350,660	419,389	419,000	(389)
INVESTMENT EARNINGS & RENT	859,365	628,086	724,400	637,000	(87,400)
OTHER					
General Administration & Overhead	in transfers	1,575,484	1,855,937	1,855,937	-
Other	135,887	19,483	118,200	118,000	(200)
TOTAL OTHER	135,887	1,594,967	1,974,137	1,973,937	(200)
TRANSFERS IN	1,083,357	868,272	925,332	925,332	-
TOTAL REVENUE & TRANSFERS IN	15,048,290	15,397,208	16,246,408	15,879,569	(366,839)

Memorandum



City Manager's Office

Date:

October 31, 2002

To:

Ed Tewes, City Manager
Jack Dilles, Finance Director

From:

Melissa Stevenson Dile, Assistant to the City Manager

Subject:

Impact of General Fund Budget Reductions

The proposed General Fund budget cuts are intended to have minimal impact on services to the community. The cuts will have an effect internally, however, as they are made from an already-lean operating budget. In some cases, departmental workplan items, performance measures or interdepartmental services may be affected. In addition, departmental cuts may require use of general City reserves if unanticipated needs arise. The main strategies used to achieve the budget cuts are listed below, along with examples of the impact of implementing the strategies.

Elimination of Contingency Funds in Departmental Budgets

In some departments, funds were budgeted as contingencies. For example, supplemental funds were budgeted in the City Clerk's Office for unforeseen expenses related to the creation of Council office space. In addition, the Building Maintenance division budgeted for general replacement needs. While it is reasonable to expect that furniture or fixtures will need to be replaced, the specific needs are not known ahead of time. Such funding may be cut. If this occurs and unplanned expenses arise over the course of the year, such expenses would not be able to be covered in departmental budgets.

Delayed Filling of Vacant Positions Will Reduce Turn-around Time for Internal Services

We will continue to monitor vacancies and evaluate whether vacant positions need to be filled immediately, or at all. In the City Attorney's Office, City Clerk's Office, Finance Department and Police Department, managers propose to delay filling vacancies. These delays are not expected to reduce service to the public, but would have an impact internally. Current staff would not be able to fulfill requests from other departments as quickly as desired, or to assume new special projects as readily as they could with full staffing. An example is that long-term projects, such as revamping the code enforcement and sewer ordinances, could be delayed.

Some Service Cuts May be Required

To reach our overall General Fund budget reduction may require some service cuts or user fee increases in Recreation. Unlike other General Fund departments which have vacant positions, salary savings are not likely in Recreation. In addition, funds for several major Recreation projects, such as the City's presence in the Independence Day parade and at the Taste of Morgan Hill, have already been spent. Funds are also committed for the Community and Cultural Center grand opening. Thus, to achieve a budget reduction in Recreation, staff are considering reducing the size and distribution of the Recreation Guide, ending support for lower-impact programs such as the YAC Skate Jam, and replacing Art A La Carte with programs at the Community and Cultural Center.

Training and Continuing Education Continue

It is important to note that the proposed cuts would not diminish the City's commitment to training and continuing education for employees. This commitment is even more important when employees are asked to work creatively and to do more with less.



CITY COUNCIL STAFF REPORT

MEETING DATE: *November 13, 2002*

Agenda Item # 3

Prepared By:

Finance Director

Submitted By:

City Manager

FUND RESERVE & DESIGNATION POLICY

RECOMMENDED ACTION:

Discuss and approve the proposed “Fund Reserve & Designation Policy”

EXECUTIVE SUMMARY: The attached “Fund Reserve & Designation Policy” has been analyzed and approved by the Finance and Audit Committee, so that this policy may be included in the Budget Document and may serve as a guide for current and future budgetary decisions and appropriate administrative action. The purpose of the policy is to target the minimum level necessary to maintain the City’s credit worthiness and to adequately provide for economic uncertainties, local disasters or catastrophes, future debt or capital obligations, cash flow requirements and legal requirements.

The policy focuses primarily on the General Fund, but also includes separate sections that apply to the Sewer, Water, Community Development, Unemployment, Workers’ Compensation, and General Liability Funds. The policy indicates that the General Fund should maintain 17% of annual projected revenues as a minimum general reserve, maintain an additional 7% designated for non-recurring emergencies, and a 7% designated for economic uncertainty. The policy also provides that any unreserved, undesignated funds available in addition to the above items should be allocated for: 1) Increases in service delivery levels and/or 2) Increases in “trust” funds for ongoing maintenance (e. g. parks maintenance, community center operations).

The designation for economic uncertainty is necessary because the City’s General Fund operations are highly dependent on two volatile revenue sources that increase or decrease with changes in the economy: sales taxes and transient occupancy taxes (TOT). Under the proposed policy, a portion of the amounts designated for Economic Uncertainty may be made available for appropriation in any budget year in which the cumulative amount of the projected increase in sales taxes and TOT revenues, from 2001/02 through the year for which a budget is proposed, is *less than* the amount projected based upon the change in population and the change in the cost of living (CPI) over the same period. The amount to be “released” for appropriation would equal only that amount needed to bring the projected sales tax and TOT revenue up to the amount that would have been generated had the two revenue sources increased at the rate of the projected increase in population and CPI over the two year period.

The Designation for Economic Uncertainty would be replenished with sales taxes and TOT revenues up to the 7% level once the cumulative amount of the projected increase in sales taxes and TOT revenues, from 2001/02 through the year for which a budget is proposed, is *more than* the amount projected based upon the change in population and the change in the cost of living (CPI) over the same period.

Also attached is an example showing calculations for reserves and designations for the General Fund.

FISCAL IMPACT: The proposed policy would serve as a policy to provide for future financial planning and prudent use of available resources for the City’s key operating funds, so that the City may provide services to the community in an efficient and effective manner.

Proposed Fund Reserve & Designation Policy

Purpose

The City of Morgan Hill *proposes* this policy to target the minimum level necessary to maintain the City's credit worthiness and to adequately provide for economic uncertainties, local disasters or catastrophes, future debt or capital obligations, cash flow requirements and legal requirements.

The City shall maintain unappropriated fund balance or working capital in the General Fund, Water and Sewer operating funds, Water and Sewer rate stabilization funds, Community Development Fund, and certain internal service funds.

Policy

General Fund

The City shall make every effort to keep a minimum general reserve level equivalent to 60 days (17%) of the total General Fund projected revenues for the budget year. This general reserve shall provide for the continuance of general City operations should an unexpected event, other than an emergency or an economic recession, befall the City, causing a financial drain on City financial resources. This reserve will protect the City and provide staff time to develop a plan to confront fiscal challenges that may arise. In addition, the General Fund should also have a designated fund balance consisting of at least:

Emergencies (non-recurring):	7% of annual projected revenues
Economic Uncertainty	7% of annual projected revenues

When the General Fund reserve level or the Designation for Emergencies has been reduced below the minimum, City staff shall present a plan to bring the level back to the minimum.

In addition, it is sometimes appropriate for the City to designate portions of the reserve for other temporary, non-capital project purposes, such as start-up costs for a new facility, project, or program. Once this new activity begins and the need for this designation has passed, the designation shall be eliminated.

The designations may be increased or decreased from year to year in accordance with this policy and as adopted in the annual budget.

Any unreserved, undesignated funds available in addition to the above items should be allocated for:

- Increases in service delivery levels
- Increases in "trust" funds for ongoing maintenance (e. g. parks maintenance, community center operations)

Designation for Economic Uncertainty

The designation for economic uncertainty is necessary because the City's General Fund operations are highly dependent on two volatile revenue sources that increase or decrease with changes in the economy: sales taxes and transient occupancy taxes (TOT).

A portion of the amounts designated for Economic Uncertainty may be made available for appropriation in any budget year in which the cumulative amount of the projected increase in sales taxes and TOT revenues, from 2001/02 through the year for which a budget is proposed, is *less than* the amount projected based upon the change in population and the change in the cost of living (CPI) over the same period.

The amount to be “released” for appropriation shall equal only that amount needed to bring the projected sales tax and TOT revenue up to the amount that would have been generated had the two revenue sources increased at the rate of the projected increase in population and CPI over the two year period.

The Designation for Economic Uncertainty shall be replenished with sales taxes and TOT revenues up to the 7% level once the cumulative amount of the projected increase in sales taxes and TOT revenues, from 2001/02 through the year for which a budget is proposed, is *more than* the amount projected based upon the change in population and the change in the cost of living (CPI) over the same period.

Enterprise Funds

Water and Sewer Operating Funds

The City shall make every effort to keep a minimum reserve level of 25% of the appropriated operating budget for each of these enterprise operating funds.

Water and Sewer Rate Stabilization Funds

The City shall make every effort to keep a minimum reserve level for each of these funds equal to 20% of the annual estimated utility usage revenue accounted in for in the operating budget, in case of a temporary drop in customer demand.

Community Development Fund

The City shall make every effort to keep a minimum reserve level of 30% of the appropriated operating budget for the Community Development Fund, in order to provide for those temporary periods when less development activity occurs and less revenue is collected by the City.

Internal Service Funds

Unemployment

The City shall make every effort to maintain a minimum reserve level in the Unemployment Fund equal to 100% of the appropriation for unemployment claims.

Worker’s Compensation

The City shall make every effort to maintain a minimum reserve level for Worker’s Compensation equal to the incurred expenses remaining unpaid for all open claims.

General Liability

The City shall make every effort to maintain a minimum reserve level equal four times the self insured retention for general liability.

Encumbrances

Reserves for Encumbrances are established in each fund during each fiscal year to reserve fund balance in the amount equal to the City’s unpaid obligations and legal commitments. Staff shall bring to the City Council for acceptance a list of all outstanding encumbrances related to unfinished projects following the end of each fiscal year. The total of these encumbrances shall be added to the new year’s budget in recognition that these amounts were financed with fund balance reserved in the prior fiscal year.

TOTAL PROJECTED FUND BALANCE AT 7/1/02 **10,749,000**

GENERAL RESERVE = TO 17% OF BUDGETED 2002/03 REVENUE OF \$16,246,000: (2,762,000)

DESIGNATION FOR EMERGENCIES: = TO 7% OF BUDGETED 2002/03 REVENUE: (1,137,000)

DESIGNATION FOR ECONOMIC UNCERTAINTY: = TO 7% OF BUDGETED 2002/03 REVENUE: (1,137,000)

DESIGNATION FOR FIRE MASTER PLAN IMPLEMENTATION: (1,400,000)

TOTAL IDENTIFIED RESERVES AND DESIGNATIONS FOR GENERAL FUND: **(6,436,000)**

EXCESS OF BUDGETED EXPENDITURES OVER REVENUES FOR 2002/03: **(263,000)**

REMAINING PROJECTED UNRESERVED AND UNDESIGNATED FUND BALANCE AT 6/30/03: **4,050,000**

PROPOSED ANALYSIS OF DESIGNATION FOR ECONOMIC UNCERTAINTY FOR 2002/03:

SALES TAX EXPECTED FOR 2001/02 (actual 2000/01 + CPI + population growth) 5,715,000

TOT EXPECTED IN 2001/02 (actual 2000/01 + CPI + population growth) 1,414,000

TOTAL SALES TAX & TOT ORIGINALLY EXPECTED IN 2001/02: **7,129,000**

LESS SALES TAX RECEIVED IN 2001/02 4,870,000

LESS TOT RECEIVED IN 2001/02 932,000

TOTAL SALES TAX & TOT RECEIVED IN 2001/02 **5,802,000**

NET SHORTFALL IN 2001/02 SALES TAX & TOT **1,327,000**

APPLICATION OF PROPOSED GENERAL FUND RESERVE & DESIGNATION POLICIES

EXPECTED SALES TAX FOR 2002/03 BASED ON CPI & POPULATION GROWTH	5,946,000
EXPECTED TOT FOR 2002/03 BASED ON CPI & POPULATION GROWTH	1,471,000
TOTAL EXPECTED SALES TAX & TOT FOR 2002/03 BASED ON CPI & POPULATION GROWTH	<u>7,417,000</u>

PROJECTED SALES TAX FOR 2002/03	4,800,000
PROJECTED TOT FOR 2002/03	976,000
TOTAL PROJECTED SALES TAX & TOT FOR 2002/03	<u>5,776,000</u>

1,641,000

NET SHORTFALL IN EXPECTED SALES TAX & TOT FOR 2002/03

TOTAL PROJECTED SHORTFALL IN SALES TAX & TOT FOR 2001/02 & 2002/03
& AMOUNT OF DESIGNATION FOR ECONOMIC UNCERTAINTY THAT COULD BE
RELEASED FOR APPROPRIATION:

2,968,000

AMOUNT OF DESIGNATION FOR ECONOMIC UNCERTAINTY PROPOSED TO
BE USED TO BALANCE 2002/03 BUDGET (SEE SEPARATE STAFF REPORT)

184,000



CITY COUNCIL STAFF REPORT

MEETING DATE: November 13, 2002

Agenda Item # 4

Prepared By:

**Council Services &
Records Manager**

Submitted By:

City Manager

COUNCIL DIRECTION REGARDING SCHEDULING SPECIAL MEETINGS

RECOMMENDED ACTION:

Council Discussion and Direction regarding Scheduling/Calling of Special Meetings.

EXECUTIVE SUMMARY:

This item was scheduled for Council consideration on November 6, 2002. Due to the lateness in the hour, the Council continued this item to a November 13, 2002 special meeting. The November 6, 2002 staff report is attached that provides the background and recommended action for this item.

FISCAL IMPACT: No budget adjustment required.



CITY COUNCIL STAFF REPORT

MEETING DATE: November 6, 2002

COUNCIL DIRECTION REGARDING SCHEDULING SPECIAL MEETINGS

RECOMMENDED ACTION:

Council Discussion and Direction regarding Scheduling/Calling of Special Meetings.

EXECUTIVE SUMMARY:

At the September 25, 2002 Council meeting, Council Member Tate requested that staff agendaize scheduling of special City Council meetings for general discussion.

The concerns regarding scheduling of special meetings stemmed from the three special meetings scheduled on September 16 at different times, conflicting with the scheduled Finance & Audit Committee meeting.

There are occasions when the Council or staff requests that special City Council meetings be scheduled. Government Code Section 94956 - Special Meetings; Notice states that:

“A special meeting may be called at any time by the presiding officer of the legislative body of a local agency or by a majority of the members of the legislative body, by delivering personally or by mail written notice to each member of the legislative body and to each local newspaper of general circulation, radio or television station requesting notice in writing. The notice shall be delivered personally or by mail and shall be received at least 24-hours before the time of the meeting and the place of the special meeting and the business to be transacted . . . ”

When City Clerk staff is advised that there is a need to schedule a special meeting, City Clerk staff makes every attempt to contact the Mayor and each Council Member to inquire as to availability at least 24-hours prior to posting the special meeting agenda. When the second special meeting was called on September 16, staff did not realize that two Council members were attending the Finance & Audit Committee meeting. The City Manager and Executive Team discussed the need to streamline meetings for the Council. Therefore, since the September 16 meeting, City Clerk staff has been designated as the “clearinghouse” for all requests for Council meetings. Staff members have been asked to utilize City Clerk staff to schedule Council member meetings with the exception of scheduled ongoing Council subcommittee meetings.

City Clerk staff will make every effort to appropriately coordinate special Council meetings with the Mayor and four Council members. There are instances when a Council member or two may have conflicting schedules and are unable to attend a special meeting. Staff would like direction in this regard. The City Clerk has worked with the City Attorney to amend Council Policy 2.3 to state that “Staff will consult the Council’s master calendar and attempt to contact all Council members prior to calling a special meeting to determine availability, but circumstances may not allow for such contact. Council members should give their calendar to the City Clerk on at least a weekly basis, and specify times when they are not available for special meeting.” Staff seeks Council comments and directions with regards to Policy 2.3 and to advise what days and/or hours are convenient for Council members to attend special meetings.

FISCAL IMPACT: No budget adjustment required.

Agenda Item #

Prepared By:

Council Services &
Records Manager

Approved By:

City Attorney

Submitted By:

City Manager